TEXTILE AND APPAREL TRADE ACT

HEARINGS

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

H.R. 1154

TEXTILE AND APPAREL TRADE ACT OF 1987

MAY 7, 18; AND JUNE 2, 1987

Serial 100-11

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE
76-153 WASHINGTON : 1987

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

COMMITTEE ON WAYS AND MEANS

DAN ROSTENKOWSKI, Illinois, *Chairman*

SAM M. GIBBONS, Florida
J.J. PICKLE, Texas
CHARLES B. RANGEL, New York
FORTNEY H. (PETE) STARK, California
ANDY JACOBS, Jr., Indiana
HAROLD FORD, Tennessee
ED JENKINS, Georgia
RICHARD A. GEPHARDT, Missouri
THOMAS J. DOWNEY, New York
FRANK J. GUARINI, New Jersey
MARTY RUSSO, Illinois
DON J. PEASE, Ohio
ROBERT T. MATSUI, California
BERYL ANTHONY, Jr., Arkansas
RONNIE G. FLIPPO, Alabama
BYRON L. DORGAN, North Dakota
BARBARA B. KENNELLY, Connecticut
BRIAN J. DONNELLY, Massachusetts
WILLIAM J. COYNE, Pennsylvania
MICHAEL A. ANDREWS, Texas
SANDER M. LEVIN, Michigan
JIM MOODY, Wisconsin

JOHN J. DUNCAN, Tennessee
BILL ARCHER, Texas
GUY VANDER JAGT, Michigan
PHILIP M. CRANE, Illinois
BILL FRENZEL, Minnesota
DICK SCHULZE, Pennsylvania
BILL GRADISON, Ohio
WILLIAM M. THOMAS, California
RAYMOND J. McGRATH, New York
HAL DAUB, Nebraska
JUDD GREGG, New Hampshire
HANK BROWN, Colorado
ROD CHANDLER, Washington

Robert J. Leonard, *Chief Counsel*
M. Kenneth Bowler, *Staff Director*
A.L. Singleton, *Minority Chief of Staff*

Subcommittee on Trade

SAM M. GIBBONS, Florida, *Chairman*

DAN ROSTENKOWSKI, Illinois
ED JENKINS, Georgia
THOMAS J. DOWNEY, New York
DON J. PEASE, Ohio
MARTY RUSSO, Illinois
RICHARD A. GEPHARDT, Missouri
FRANK J. GUARINI, New Jersey
ROBERT T. MATSUI, California

PHILIP M. CRANE, Illinois
BILL ARCHER, Texas
GUY VANDER JAGT, Michigan
BILL FRENZEL, Minnesota
DICK SCHULZE, Pennsylvania

CONTENTS

Page
Press release of Friday, April 24, 1987, announcing the hearings ... 1
H.R. 1154, text ... 632

WITNESSES

Office of the U.S. Trade Representative, Hon. Michael B. Smith, Deputy U.S. Trade Representative ... 170
U.S. Department of Commerce, Hon. Bruce Smart, Under Secretary for International Trade ... 175
Congressional Budget Office, Edward M. Gramlich, Acting Director, and Daniel Kaplan ... 338
Office of Technology Assessment, Henry C. Kelly, Senior Associate, and Dan Chenok ... 351

Amalgamated Clothing & Textile Workers Union, AFL–CIO, Jack Sheinkman ... 80
American Association of Exporters & Importers:
    Julia K. Hughes, Textile and Apparel Group ... 230
    Joan M. Padduck, Footwear Group ... 280
American Textile Manufacturers Institute, Robert G. Laidlaw ... 87
Atlantic Apparel Contractors' Association, Inc., Arnold Delin ... 215
Avtex Fibers, Inc., John N. Gregg ... 58
Bauch, Thomas J., Levi Strauss & Co ... 203
Blaz, Hon. Ben, a Delegate in Congress from Guam ... 440
Boettge, William, National Shoe Retailers Association ... 160
Boyle, Hon. Brian, Commissioner of Public Lands, State of Washington, Western States Land Commissioners Association ... 52
Burns, Richard, Levi Strauss & Co ... 203
Cline, Lloyd E., National Cotton Council of America, and Fiber, Fabric & Apparel Coalition for Trade ... 92
Coats & Clark, Inc., Robert G. Laidlaw ... 87
Congressional Textile Caucus:
    Hon. Butler Derrick, a Representative in Congress from the State of South Carolina ... 11
    Hon. W.G. (Bill) Hefner, a Representative in Congress from the State of North Carolina ... 19
    Hon. Frank Horton, a Representative in Congress from the State of New York ... 16
    Hon. Ed Jenkins, a Representative in Congress from the State of Georgia. 5
    Hon. David E. Price, a Representative in Congress from the State of North Carolina ... 30
    Hon. Harold Rogers, a Representative in Congress from the State of Kentucky ... 23
Delin, Arnold, Keystone Apparel Association, and Atlantic Apparel Contractors' Association, Inc ... 215
Derrick, Hon. Butler, a Representative in Congress from the State of South Carolina, and Chairman, Congressional Textile Caucus ... 11
DuBrow, Evelyn, International Ladies' Garment Workers' Union, AFL–CIO ... 305
Emrich, Tom, Retail Industry Trade Action Coalition ... 117
Fall River, MA, Mayor Carlton Viveiros ... 50
Fiber, Fabric & Apparel Coalition for Trade:
    Lloyd E. Cline, National Cotton Council of America ... 92
    John N. Gregg, Avtex Fibers, Inc ... 58

Page

Fiber, Fabric & Apparel Coalition for Trade—Continued
  - Robert G. Laidlaw, American Textile Manufacturers Institute, Coats & Clark, Inc ... 87
  - Thomas N. Roboz, Stanwood Corp ... 62
  - Jack Sheinkman, Amalgamated Clothing & Textile Workers Union, AFL–CIO ... 80

Florsheim Shoe Co., Ronald J. Mueller and Steve Sonnenberg ... 285
Footwear Industries of America, Robert H. Slosberg ... 97
Footwear Retailers of America, Peter T. Mangione ... 149
Frank, Hon. Barney, a Representative in Congress from the State of Massachusetts ... 48, 445
Gregg, John N., Avtex Fibers, Inc., and Fiber, Fabric & Apparel Coalition for Trade ... 58
Gould, W. Thomas, Younkers Inc., and Retail Industry Trade Action Coalition ... 117
Harari, David, Sarne Corp., and National Fashion Accessories Association ... 287
Hefner, Hon. W.G. (Bill), a Representative in Congress from the State of North Carolina, and member, Congressional Textile Caucus ... 19
Horton, Hon. Frank, a Representative in Congress from the State of New York, and member, Congressional Textile Caucus ... 16
Hughes, Julia K., American Association of Exporters & Importers, Textile and Apparel Group ... 230
International Footwear Association, Ted Rowland ... 284
International Ladies' Garment Workers' Union, AFL–CIO, Jay Mazur, Evelyn DuBrow, and Herman Starobin ... 305
International Longshoremen's & Warehousemen's Union, Local 23, Tacoma, WA, Phillip Lelli ... 330
Jenkins, Hon. Ed, a Representative in Congress from the State of Georgia, and former Chairman, Congressional Textile Caucus ... 5
Keystone Apparel Association, Arnold Delin ... 215
Kilgore, James, Levi Strauss & Co ... 203
Laidlaw, Robert G., American Textile Manufacturers Institute, Coats & Clark, Inc., and Fiber, Fabric & Apparel Coalition for Trade ... 87
Lancaster, Hon. H. Martin, a Representative in Congress from the State of North Carolina ... 435
Lelli, Phillip, International Longshoremen's & Warehousemen's Union, Local 23, Tacoma, WA ... 330
Levi Strauss & Co., Thomas J. Bauch, Richard Burns, and James Kilgore ... 203
Long Beach, CA, Port of, Travis A. Montgomery ... 331
Mangione, Peter T., Footwear Retailers of America ... 149
Mazur, Jay, International Ladies' Garment Workers' Union, AFL–CIO ... 305
McMillan, Hon. J. Alex., a Representative in Congress from the State of North Carolina ... 429
Montgomery, Travis A., Port of Long Beach, CA ... 331
Mounger, Larry C., Pacific Trail, Inc., and Northwest Apparel & Textile Association ... 210
Mueller, Ronald J., Florsheim Shoe Co ... 285
National Cotton Council of America, Lloyd E. Cline ... 92
National Fashion Accessories Association, David Harari ... 287
National Shoe Retailers Association, William Boettge ... 160
Neal, Hon. Stephen L., a Representative in Congress from the State of North Carolina ... 429
Northwest Apparel & Textile Association, Larry C. Mounger ... 210
Pacific Trail, Inc., Larry C. Mounger ... 210
Padduck, Joan M., Reebok International, Ltd., and American Association of Exporters & Importers, Footwear Group ... 280
Price, Hon. David E., a Representative in Congress from the State of North Carolina, and member, Congressional Textile Caucus ... 30
Reebok International, Ltd., Joan M. Padduck ... 280
Retail Industry Trade Action Coalition, W. Thomas Gould, Frank R. Samolis, and Tom Emrich ... 117
Ripley Industries, Inc., Robert H. Slosberg ... 97
Roboz, Thomas N., Stanwood Corp., and Fiber, Fabric & Apparel Coalition for Trade ... 62
Rogers, Hon. Harold, a Representative in Congress from the State of Kentucky, and member, Congressional Textile Caucus ... 23
Rowland, Ted, International Footwear Association ... 284
Samolis, Frank R., Retail Industry Trade Action Coalition ... 117
Sarne Corp., David Harari ... 287

Page
Sheinkman, Jack, Amalgamated Clothing & Textile Workers Union, AFL-CIO, and Fiber, Fabric & Apparel Coalition for Trade 80
Sonnenberg, Steve, Florsheim Shoe Co 285
Slosberg, Robert H., Ripley Industries, Inc., and Footwear Industries of America 97
Stanwood Corp., Thomas N. Roboz 62
Starobin, Herman, International Ladies' Garment Workers' Union, AFL-CIO . 305
Travis, Thomas G., United States Apparel Industry Council 212
United States Apparel Industry Council, Thomas G. Travis 212
Viveiros, Mayor Carlton, Fall River, MA 50
Washington, State of, Hon. Brian Boyle 52
Western States Land Commissioners Association, Hon. Brian Boyle 52
Younkers Inc., W. Thomas Gould 117

SUBMISSIONS FOR THE RECORD

Ablondi, Italo H., Sturgis M. Sobin, and Peter J. Koenig, Taiwan Textile Federation, joint statement and attachment 608
Alexander, Mary K., Citizens for a Sound Economy, statement 511
Altschuler, Irwin P., and Donald S. Stein, Camara Nacional de la Industria del Calzado, joint statement and attachments 479
American International Knitters and Yuri Fashions Company, Ltd., Andrew P. Vance, Matthew T. McGrath, and Vincent Bowen, joint statement 450
American President Lines, Ltd., Michael Diaz, letter 456
American Textile Manufacturers Institute, John D. Greenwald, and Robert C. Cassidy, Jr., joint statement 457
Appropriations, Committee on, U.S. House of Representatives, Hon. Jamie Whitten, chairman, statement 628
Association of Southeast Asian Nations, Washington Committee, Hon. Emmanuel N. Pelaez, Ambassador of the Philippines, Hon. Pengiran Dato Paduka Haji Idriss, Ambassador of Brunei Darussalam, Hon. Tommy Koh, Ambassador of Singapore, Hon. Soesilo Soedarman, Ambassador of Indonesia, Hon. Arsa Sarasin, Ambassador of Thailand, Hon. Albert Talalla, Ambassador of Malaysia, joint letter 464
Ballenger, Hon. Cass, a Representative in Congress from the State of North Carolina, statement 467
Bevill, Hon. Tom, a Representative in Congress from the State of Alabama, statement 469
Biedermann, Ralph A., Committee for Production Sharing, statement 520
Bobbin International Inc., Ronald Segal, letter and attachments 470
Bodman, Seth M., National Knitwear and Sportswear Association, statement and attachment 562
Bowen, Vincent, Andrew P. Vance, Matthew T. McGrath, American International Knitters and Yuri Fashions Company, Ltd., joint statement 450
Brown, Doreen L., Consumers for World Trade, statement 523
Business and Industrial Council, Anthony Harrigan, letter 478
Camara Nacional de la Industria del Calzado, Irwin P. Altschuler, and Donald S. Stein, joint statement and attachments 479
Canadian Embassy, Hon. Allan Gotlieb, Ambassador, letter 487
Caribbean Basin Economic Recovery Act beneficiary countries, Hon. James O'Neil Lewis, Ambassador, Embassy of Trinidad and Tobago, et al., joint letter 489
Cassidy, Robert C., Jr., and John D. Greenwald, American Textile Manufacturers Institute, joint statement 457
Cecil Saydah Company, Leslie Alan Glick, statement 492
Center for Industrial Competitiveness, James A. Clifton, statement and attachment 494
Citizens for a Sound Economy, Mary K. Alexander, statement 511
Clarke, Hon. James McClure, a Representative in Congress from the State of North Carolina, statement 515
Clifton, James A., Center for Industrial Competitiveness, statement and attachment 494
Cline, William R., Institute for International Economics, statement 549
Coble, Hon. Howard, a Representative in Congress from the State of North Carolina, statement 519
Cocheo, Anthony V., Jerie Sales Co., letter 556
Committee for Production Sharing, Ralph A. Biedermann, statement 520
Consumers for World Trade, Doreen L. Brown, statement 523

Page
Cromer, Leonard F., Anderson, SC, letter 526
Davis, Carl K., Nike, Inc., letter and attachments 577
Denker, Hershel A., Zayre Corp., letter and attachment 630
Diaz, Michael, American President Lines, Ltd., letter 450
Economic Perspectives, Inc., William C. Motes, statement 527
Elekdag, Hon., Sukru, Turkish Embassy, letter 621
European Communities, Delegation of the Commission of, Barbara Jacob, letter 538
Finland, Embassy of, Hon. Paavo Rantanen, Ambassador, letter and attachment 539
Glick, Leslie Alan, Cecil Saydah Co., statement 492
Gotlieb, Hon. Allan, Ambassador, Canadian Embassy, letter 487
Greenwald, John D., and Robert C. Cassidy, Jr., American Textile Manufacturers Institute, joint statement 457
Harrigan, Anthony, Business and Industrial Council, letter 478
Hu, Tsu-wang, Taiwan Footwear Manufacturers Association, statement 605
ICF Incorporated, International Programs of, John G. Reilly, statement 542
Institute for International Economics, William R. Cline, statement 549
Jacob, Barbara, Delegation of the Commission of the European Communities, letter 538
J.C. Penney Company, Inc., Russell H. Pearson, letter 554
Jerie Sales Co., Anthony V. Cocheo, letter 556
Jones, Hon. Ed, a Representative in Congress from the State of Tennessee, statement 557
Koenig, Peter J., Italo H. Ablondi, Sturgis M. Sobin, Taiwan Textile Federation, joint statement and attachment 608
Los Angeles Area Chamber of Commerce, Ray Remy, letter 559
McGrath, Matthew T., Andrew P. Vance, and Vincent Bowen, American International Knitters and Yuri Fashions Company, Ltd., joint statement 450
Motes, William C., Economic Perspectives, Inc., statement 527
Murtha, Hon. John P., a Representative in Congress from the State of Pennsylvania, statement 561
National Knitwear and Sportswear Association, Seth M. Bodman, statement and attachment 562
National Mass Retailing Institute, Robert J. Verdisco, letter 568
Neckwear Association of America, Inc., statement and attachment 569
Nichols, Hon. Bill, a Representative in Congress from the State of Alabama, statement 571
Nike, Inc., Carl K. Davis, letter and attachments 577
Northern Mariana Islands, Commonwealth of, Hon. Pedro A. Tenorio, Lt. Governor, letter and statement 572
Patterson, Hon. Elizabeth J., a Representative in Congress from the State of South Carolina, statement 587
Pearson, Russell H., J.C. Penney Company, Inc., letter 554
Ranong, Abinant Na, Royal Thai Embassy, letter and attachment 593
Rantanen, Hon. Paavo, Ambassador, Embassy of Finland, letter and attachment 539
Ray, Hon. Richard, a Representative in Congress from the State of Georgia, statement 589
Reilly, John G., International Programs of ICF Incorporated, statement 542
Remy, Ray, Los Angeles Area Chamber of Commerce, letter 559
Ritter, Hon. Don, a Representative in Congress from the State of Pennsylvania, statement 591
Rowland, Hon. J. Roy, a Representative in Congress from the State of Georgia, statement 596
Royal Thai Embassy, Abinant Na Ranong, letter and attachment 593
Segal, Ronald, Bobbin International Inc., letter and attachments 470
Snowe, Hon. Olympia J., a Representative in Congress from the State of Maine, statement 597
Sobin, Sturgis M., Italo H. Ablondi, Peter J. Koenig, Taiwan Textile Federation, joint statement and attachment 608
Stein, Donald S., and Irwin P. Altschuler, Camara Nacional de la Industria del Calzado, joint statement and attachments 479
Sunia, Hon. Fofo I.F., a Representative in Congress from the Territory of American Samoa, statement 602
Taiwan Footwear Manufacturers Association, Tsu-wang Hu, statement 605
Taiwan Textile Federation, Italo H. Ablondi, Sturgis M. Sobin, and Peter J. Koenig, joint statement and attachment 608

Page

Tenorio, Hon. Pedro A., Lt. Governor, Commonwealth of the Northern Mariana Islands, letter and statement 572
Toy Manufacturers of America, statement 619
Turkish Embassy, Hon. Sukru Elekdag, Ambassador, letter 621
United States-Mexico Chamber of Commerce, Gerard J. Van Hueven, statement 623
Vance, Andrew P., Matthew T. McGrath, and Vincent Bowen, American International Knitters and Yuri Fashions Company, Ltd., joint statement 450
Verdisco, Robert J., National Mass Retailing Institute, letter 568
Washington Council on International Trade, statement 629
Whitten, Hon. Jamie, a Representative in Congress from the State of Mississippi, and chairman, Committee on Appropriations, statement 628
Yuri Fashions Company, Ltd., and American International Knitters, Andrew P. Vance, Matthew T. McGrath, and Vincent Bowen, joint statement 450
Zayre Corp., Hershel A. Denker, letter and attachment 630

TEXTILE AND APPAREL TRADE ACT OF 1987

THURSDAY, MAY 7, 1987

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
FRIDAY, APRIL 24, 1987

SUBCOMMITTEE ON TRADE #5
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-3627

THE HONORABLE SAM M. GIBBONS (D., FLA.),
CHAIRMAN, SUBCOMMITTEE ON TRADE,
COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES,
ANNOUNCES PUBLIC HEARINGS ON H.R. 1154,
THE TEXTILE AND APPAREL TRADE ACT OF 1987

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee on Trade will hold public hearings on H.R. 1154, the Textile and Apparel Trade Act of 1987 on Thursday, May 7, and Monday, May 18, 1987, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 9:30 a.m., both days.

The bill provides for global quotas on all imports of textiles, apparel, and textile-related products, with a maximum growth rate of one percent per year. The bill also provides for global quotas on all imports of nonrubber footwear, fixed at 1986 import levels. Both the textile quotas and the footwear quotas are permanent in duration, and apply to imports from all countries. Limited authority to negotiate tariff reductions (down to 90 percent of existing tariff rates) is provided to the President for purposes of compensating adversely affected countries. The President would be required under the bill to submit an annual report to Congress on the administration of the Act.

The hearings will consider the current operation of the textile import quota program, the competitive conditions of the textile, apparel, and footwear industries, and the need for legislation such as H.R. 1154 to mandate further controls on imports.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD:

Requests to be heard must be made by telephone to Harriett Lawler [telephone (202) 225-3627] by close of business Friday, May 1, 1987 (for consideration for the May 7 hearing), or Friday, May 8, 1987 (for consideration for the May 18 hearing). The telephone request should be followed by a formal written request to Joseph K. Dowley, Chief Counsel, Committee on Ways and Means, U.S. House Office Building, Washington, D.C. 20515. The Subcommittee staff will notify by telephone those scheduled to appear as soon as possible after the filing deadlines. Any questions concerning a scheduled appearance should be directed to the Subcommittee office [(202) 225-3943].

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearings. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadlineS.

Witnesses scheduled to present oral testimony are requested to briefly summarize their written statements. The full statement will be included in the printed record.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 150 copies of their prepared statements to the Subcommittee on Trade office, room 1136 Longworth House Office Building, at least 24 hours in advance of their scheduled appearance. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Persons submitting a written statement in lieu of a personal appearance should submit six (6) copies of their statement by the close of business Friday, May 29, 1987, to Joseph K. Dowley, Chief Counsel, Committee on Ways and Means, room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing a written statement for the record of the printed hearings wish to have their statement distributed to the press and the interested public at the hearings, they may provide 75 additional copies for this purpose to the Subcommittee office, room 1136 Longworth House Office Building, during the course of the public hearings.

SEE ENCLOSED FORMATTING REQUIREMENTS.

*****

Chairman GIBBONS. Good morning, ladies and gentlemen.

Today the Subcommittee on Trade will begin hearings on H.R. 1154, the Textile and Apparel Trade Act of 1987. As part of our legislative oversight responsibilities, this subcommittee has often examined the conditions of competition and international trade in the textile and apparel sector. Our most recent review took place exactly two years ago in the spring of 1985.

At that time, the Subcommittee on Trade held extensive hearings in both Washington and various parts of the country to learn more about the operation of the textile import program, the conditions of our domestic industry, and its ability to compete in the international marketplace.

Indeed, the subcommittee's travels 2 years ago included visits to the congressional districts of several of our colleagues from the Textile Caucus who are with us this morning. I want to say personally that I have never been more hospitably received, more cordially received, and I never had as much of a good time on a trip as I had on that trip. I learned a lot, not only about the textile industry, but also about my friends and colleagues that I see at the table and about America.

As we return to this issue of textile trade in 1987, we see that much has changed—and much has changed for the better—for these industries over the past 2 years. According to official U.S. Government statistics, our textile industry is doing much better than most manufacturing industries in the United States. Domestic consumption is strong and rising, and both domestic production and exports are up. Capacity continues to increase while capacity utilization is in the mid-90 percentile range. Productivity growth continues to increase; profits are much higher than the average and are predicted to be even higher this year.

In short, as reported to us by our own Government, the textile industry is not only recovering from the effects of the economic recession, it is recovering at a much stronger pace than most of the rest of our manufacturing economy. I think the textile industry owes a heck of a lot of that to those of you right there at the table.

Furthermore, significant change in our trade policy for textiles and apparel have occurred in the past 2 years. Last year, the countries of the Multi-Fiber Arrangement successfully renegotiated the MFA for 5 additional years. Its coverage was expanded to reach all fibers, including linen, ramie, jute, and silk blends. Our ability to take unilateral action through cause was extended from 1 year to 2 years, and authority to take actions against fraud and circumvention were strengthened.

In connection with these changes, the administration renegotiated earlier than was really necessary our bilateral textile arrangements with the Big Three—Taiwan, Hong Kong, and Korea. The new arrangements are much tougher than they were before, restricting their aggregate export growth to 1 percent or less per year. After numerous rounds, the administration also succeeded in negotiating a tough bilateral arrangement with Japan, limiting their annual growth to eight-tenths of 1 percent.

These changes in our textile trade policy, coupled with the strong economic recovery taking place in the domestic industry, are all positive changes which greatly benefit U.S. workers and U.S. businesses, and I am happy to see these changes. Some of the witnesses we will be hearing from during the course of these hearings may have slightly different views of what is happening in the textile and footwear industries. The purpose of these hearings is to hear testimony from all points of view. If there are other reliable indicators that conditions are, in fact, different from those that I have cited, then we are here to learn about them and to consider them.

I would like to add at this point that the subcommittee has received numerous requests from Members of Congress as well as from the private sector to testify at these hearings. For the purposes of today's witness list, we have scheduled a select group of witnesses representing different points of view. I will ask Congressman Derrick to sort of act as chairman of this first panel this morning because he is the chairman of the Texitle Caucus, and any additional Members, Mr. Derrick, who are not members of this panel this morning and who are Members of Congress who wish to testify will be given a chance later. I will be here and will sit down and listen to them as they talk.

We are going to have a number of witnesses this morning. I have laid out a case that I think is pretty strong, but I submit that these are all figures supplied to this subcommittee by our own Government; and if you have different figures or different views of those figures—and I am sure you do—I and the rest of the committee would be pleased to hear you.

Mr. Derrick.

Mr. DERRICK. Thank you, Mr. Chairman. Thank you for scheduling these hearings this morning, and thank you for being here——

Chairman GIBBONS. Excuse me, I neglected to call on Mr. Schulze. Mr. Schulze is a very important member of our committee and always in attendance.

Mr. SCHULZE. Thank you, Mr. Chairman, and I will be very brief. It is said that statistics do not lie; however, there are various ways of viewing and interpreting statistics.

Chairman GIBBONS. The gentleman is correct.

Mr. SCHULZE. I would hope, as the gentleman states, that we will get all views and all sides of this issue. It is also said that when your neighbor is out of a job it is a recession, and when you are out of a job or unemployed it is a depression. So there are different views on the employment and unemployment situation.

I am concerned about the textile industry. I am concerned about the shrinkage, and I am concerned that instead of expanding and exporting more, that we seem to be going the other way and importing more.

I would like from the witnesses as we go through the hearings, if they have suggestions on how we can turn this around. I am concerned about the decline and the practically nonexistence of the production of textile-producing machinery in the United States of America. We used to be premier. We used to be number one.

It seems to me, as other nations move into this area with the most modern techniques, that we have an opportunity to do the same thing.

I would also like to hear from the witnesses any suggestions they have on how we can bring that industry back to the United States.

I think that we have problems, but we also have opportunities in the textile industry. And I hope that we would explore all of these.

Thank you, Mr. Chairman, for yielding.

Chairman GIBBONS. Yes, sir. Do any other members wish to make a statement before we proceed?

[No response.]

Chairman GIBBONS. Let me add that the rest of my prepared statement says I was going to hold you strictly to the time limits. Well, I did not read that part because I am not going to hold you strictly to the time limit. You take as much time as you want, and I will sit here and listen to you, and I am sure most of the other members will do the same thing. We have got a serious problem. There are lots of cosponsors of your legislation. We will not delay the consideration of this, as I have promised you, and we will move expeditiously.

Mr. Derrick.

Mr. DERRICK. Thank you, Mr. Chairman, and thank you for scheduling this hearing this morning.

You are correct that we do have statistics that disagree with those that you suggested, or at least the interpretation of them is different.

I would like to take this opportunity to let the former chairman of the Textile Caucus and a member of this committee that we are testifying before to go first on the agenda, as he is involved with the Iranian hearings. Mr. Jenkins.

STATEMENT OF HON. ED JENKINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA, AND FORMER CHAIRMAN, CONGRESSIONAL TEXTILE CAUCUS

Mr. JENKINS. Thank you, Butler.

I express my appreciation first of all to Butler for letting me go first, because I do have to go to the Select Committee on Iran.

Chairman GIBBONS. We understand.

Mr. JENKINS. Mr. Chairman and members of the subcommittee. First of all let me express my appreciation to you and all of the members of the subcommittee for your interest in this particular industry, and their difficulties. We may and do sometimes disagree upon the remedies that are necessary, or perceived to be necessary, to address the problems of this industry. I wish that it were not necessary for me to reappear before this committee to urge passage of the textile bill. Very honestly, if I had had eight more votes about a year ago, I would not be here today.

Chairman GIBBONS. I am very aware of that.

Mr. JENKINS. I ask that my entire statement be made a part of the record.

Chairman GIBBONS. Without objection, it certainly will be.

Mr. JENKINS. I will make a brief statement to the committee.

It is estimated that imports of MFA products to the U.S. markets will increase 69 percent by 1991 to 18.3 billion yards. The President last year promised to aggressively renegotiate the MFA. Some 302 House Members asked the President to negotiate a tougher MFA, particularly to tie other nations' export growth to growth in the domestic market. No provision was negotiated to prevent import surges.

According to a network news report this weekend, during the last several months, Korea shipped 50 to 80 million square yards of lightweight filament polyester fiber fabric to the United States illegally through Japan. According to this article, Japan was the alleged willing coconspirator to this quota-evading scam. All Korean identifying marks were removed and replaced with Japanese country-of-origin labels.

I point this out because it is probably, according to this news article that was on all television stations, one of the larger quota evading scams that has occurred in the past several years.

Chairman **GIBBONS**. Has our Government caught that or just the news media caught it?

Mr. **JENKINS**. They were quoting the Customs Service. Customs was simply saying that they had all of their limited personnel somewhere else, and simply did not have the opportunity to properly administer the quota system and the evasions that were occurring.

I point that out as just an incident that we are well accustomed to in the textile industry, regardless of what bills we have passed.

Chairman **GIBBONS**. As the gentleman knows, it is against the law to mislabel, and I want to make sure that those laws are enforced. I assume Customs knows about it now and is trying to track down those goods and take appropriate legal actions against those who have mislabeled and who have been a part of it.

Mr. **JENKINS**. Thank you, Mr. Chairman.

Another statement that was recently released, that all of the committee members have, is from the Office of Technology Assessment. That report was delivered to us last week. This Government report indicates that the textile and apparel industry is in dire straits, contrary to the figures that you have just alluded to. The report states, and I quote,

> Despite gains in productivity, large parts of the U.S. textile and apparel industry are gravely threatened by international competition. The United States is now importing over three times as many textile and apparel products as it was a decade ago, while exports have fallen. In 1986

Last year—

> The trade deficit in textile and apparel exceeded $21 billion.

Our total trade deficit, which is now running at the rate of almost $500 million every 24 hours, is contributed to heavily by this $21 billion deficit in textile and apparel products. Our previous bill, which I thought was a good bill, received a great deal of criticism from many Members—and I respect their views—but their criticism was probably threefold or fourfold. First of all, that it was limited to a certain part of the world and did not apply internationally. Mr. Derrick and members of the Textile Caucus have attempted to correct that criticism. We have made it global in nature.

Second of all, there was a great deal of criticism that the rollbacks in the previous bill would be extremely harmful to a lot of nations that had built up their textile import industry and, therefore, it would cause undue hardship. Mr. Derrick and the Caucus once again addressed that issue in this new bill by saying we will not have the rollbacks. We will begin with the previous year rather than going back 3 or 4 years as we did in the other bill.

We have made change after change to try to address the primary arguments against a textile bill. We think we have come up with a good product. It will not meet the approval of a lot of people, and I understand that. But I am very frank and honest in saying that I respect the views of those people who do not think we ought to have any bill and should eliminate all quotas that we now have. I understand those views. I simply disagree with them.

As far as the financial health of the industry, let me say this: If you own two plants operating at 50 percent capacity and close one of them, you could then say you were at 100 percent capacity with that which you have left. That is no great progress in my mind, 1985 was a terrible year for the textile industry. If you compare 1986 to 1985, you will get wonderful figures because 1986 was a better year than 1985. This industry will continue to be plagued with problems, and unless this committee or someone within this Congress or this administration can present an alternative to the Members who are affected in their districts, then I hope that Members would turn aside their prejudices against this legislation and take a close look at this bill. If it can be improved upon, we would be delighted to hear from those Members who have sincere considerations.

Thank you for letting me appear. Thank you, Butler, for letting me go first.

[The statement of Mr. Jenkins follows:]

TESTIMONY OF
REP. ED JENKINS

BEFORE THE WAYS AND MEANS COMMITTEE
SUBCOMMITTEE ON TRADE

MAY 7, 1987

Thank you for allowing me the opportunity to appear before you today in support of H.R. 1154, the Textile and Apparel Trade Act of 1987.

However, I wish it were not necessary for me to reappear before this Committee to urge passage of the textile bill. My presence would not have been necessary if eight Members of the House of Representatives had voted in support of overriding the President's veto of H.R. 1562, the Textile and Apparel Trade Enforcement Act of 1985 or if the Administration had effectively renegotiated the Multi-Fiber Arrangement.

While the Administration is blowing its horns about its great performance on behalf of the domestic textile and apparel industry, the fact remains that imports continue to break record levels. For the sixth successive year, textile and apparel imports rose to an all-time high level.

Our trade climate has not been stagnant during the past year. There have been many developments, most of which were not positive. We have become the largest debtor nation. Our trade deficit continues to skyrocket from $40 billion in 1981 to $170 billion in 1986. Congress failed to enact comprehensive trade reform legislation last Session. And recently, the Japanese have violated the terms of our semi-conductor agreement.

In the past year, the Administration did renegotiate a new Multi-Fiber Arrangement covering new product categories. The bottom line is that the new agreement is not the answer to the industry's problems. It is estimated that imports of MFA products to the U.S. markets will increase 69% by 1991 to 18.3 billion square yards. Not one of our other key negotiating objectives was achieved. The President promised last year "to agressively renegotiate the MFA." Three hundred and two House Members implored the President to negotiate a tougher MFA, particularly to tie other nations' export growth to growth in the domestic market. There is no such provision in the new agreement. No provision was negotiated to prevent import surges.

The so-called "highly restrictive" new agreements with Hong Kong, Taiwan and Japan guarantee these countries that they can increase shipments to us by over 500 million square yards over the lives of these agreements.

According to network news reports this past weekend, during the last several months, Korea shipped 50 - 80 million yards of lightweight filament polyester fiber fabric to the United States illegally. Japan was the willing co-conspirator to this quota-evading scam. All Korean identifying marks were removed and replaced with Japanese country-of-origin labels. The fabric entered our U.S. ports as originating from Japan, not Korea. This is a prime example of transshipment and fraudulent activity.

Last winter, we signed a new bilateral with Japan. Japan promised to impose a new visa system swearing that the textile product was "Made in Japan." However, evidence has surfaced that Japan continues to falsify documents and transship goods through Hong Kong, Singapore, the Philippines, and Taiwan.

I have little confidence in our other recently negotiated bilaterals when the Japanese have blatantly ignored the terms of their agreement. This is not an example of the Administration's pledge to redress wrongs. I am skeptical that the terms of our other bilaterals will be kept by other countries when Japan is setting such a bad example.

Last year's textile bill was a good bill, having overwhelmingly passed the House on two different occasions. However, there were some objections to certain provisions. After many long hours, we have revised the bill into a modest, refined legislative product. Opponents of H.R. 1562 countered our bill was discriminatory, unworkable and violated GATT. Our bill has been drafted in the spirit of compromise to meet these objections. Let me take a minute to outline how we have met these objections and improved the bill over last year's product.

H.R. 1154 does not discriminate against any individual country. The bill establishes global quotas for each product category. The administration has full flexibility to implement the bill within the global limits. The bill is GATT consistent. The legislation is based on a Congressional finding that the textile and apparel industry and its workers are seriously injured by imports. This finding is consistent with the meaning of Article XIX of the GATT. Under that provision, countries can act to put on import quotas when they find that imports are injuring their domestic producers.

I am sure we have all read the reports that the textile industry is healthy and making high profits this year. I couldn't be more pleased to report this is true. However, we must also realize that data clearly shows that there are cyclical swings. Last year was an up cycle following an extremely depressed 1985. All indicators were higher in 1986 as compared with 1985.

However, market disruption exists requiring new legislative measures. As a result of increased import penetration and limited growth of the domestic market, many U.S. textile and apparel companies have been forced out of business, many plants have been closed and many workers have lost their jobs.

I urge the Committee to take special note of the **Harvard Business Review** article entitled, "The Folly of Free Trade" by John M. Culbertson. This important article points to the economic destruction brought on by blind allegiance to free trade and the necessity of strong product quotas. I would like to submit this article for the record.

The Office of Technology Assessment (OTA) has released a recent report that concurs the textile and apparel industry is in dire straights. The report states, "despite gains in productivity, large parts of the U.S. textile and apparel industry are gravely threatened by international competition. The United States is now importing over three times as many textile and apparel products as it was a decade ago, while exports have fallen. In 1986, the trade deficit in textile and apparel exceeded $21 billion."

This is not the only report highlighting the problems of the textile and apparel industry. A Congressional Research Service report on trade issued in February, 1987, concludes that "the problems of the textile sector in the developed countries have only been marginally ameliorated. It thus appears that measures beyond import restraint may be needed for rescuing troubled industries."

We cannot wait for the Administration to help the textile, apparel and footwear industries. The Administation's lack of action on the footwear case is a prime example of unsound trade policy. The President disregarded the unanimous ruling of the International Trade Commission that the footwear industry had been substantially injured by imports and refused to grant any relief to that industry.

Nor can we afford to have another domestic industry become extinct the way the audio tape recording industry, the black and white television industry and the home radio industry have. The domestic footwear is surely threatened with extinction in a few short years with import penetration now reaching 81%. Our textile and apparel industries are not far behind with import penetration in the domestic wool textile and clothing market nearly 70%.

The Textile and Apparel Trade Act of 1987 is designed to promote orderly, nondisruptive growth of world trade in the fibers, textile and apparel sectors. Each quota is based on a level of imports in that category for the year 1986; therefore, there is no rollback of trade.

The intent of H.R. 1154 is clear. We are seeking to relate the growth of textile and clothing imports to the growth of the domestic market in order to prevent further disruption of U.S. textiles and textile products and prevent further loss of job opportunities. We are seeking to maintain a viable U.S. nonrubber footwear industry and to prevent further job losses.

We must slow this long term rate of growth for textile and apparel imports which has resulted in a less competitive posture for our nation.

At this rate, the day is coming when the country-of-origin label on Old Glory reads "Made in Korea" or "Made of Imported Fabric" rather than "Crafted with Pride in the U.S.A.".

This measure is the result of cooperative, bipartisan efforts on the part of Members of Congress, textile and apparel management and labor, and others concerned with the continuation of a viable domestic industry.

The new textile/apparel/footwear legislation offers those industries a fighting chance to compete. I am confident our bill shows our commitment to the survival of these vital industries.

I hope this Committee and the Congress will once again show their support for these industries by passing the Textile and Apparel Trade Act of 1987.

Chairman **Gibbons**. Ed, we are not going to examine you now, but I am sure your colleagues will take adequate time to explain these things. I appreciate your coming. You have always been an excellent member of this committee. You are conscientious and hardworking, and I have found that you are a talented adversary. I admire you. There is no one that I hate to tangle with more than you because you usually prevail.

So while we may have our differences, I want you to know I deeply respect you.

Mr. **Jenkins**. Mr. Chairman, I genuinely appreciate those comments, and I am grateful for them. I would trade them all away for your vote. [Laughter.]

Chairman **Gibbons**. I will not promise you my vote, but I will promise you that we will move without delay.

Mr. **Jenkins**. Thank you.

Chairman **Gibbons**. Thank you.

Mr. Derrick.

STATEMENT OF HON. BUTLER DERRICK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA, AND CHAIRMAN, CONGRESSIONAL TEXTILE CAUCUS

Mr. **Derrick**. Thank you, Mr. Chairman. I wanted my remarks to address two specific areas: that of productivity and that of the profit picture, at least the profit picture that you raised. But before I do that, let me say that I think this is part of the greatest problem that our country faces today. That is a dwindling economic base and a steadily increasing debtor status in this nation today. Our textile picture contributes a great deal to that the way it is at this moment.

You know, it was just a few years ago that we were the world's greatest creditor nation, and we have been a creditor nation since 1914; by far the world's greatest creditor nation. Yet just in the last couple of years, we have flipped over, and we are now the world's largest debtor nation.

We need not take any particular comfort in the situation that we find down in Brazil because we are fast headed in that direction if we do not deal with some of these problems such as the textile business here today.

You know, people holler about protectionism, but what more noble thing could we do than to try to guarantee or protect—if you prefer to use that language—the jobs of the people that we represent. These are not people that are making $100,000 a year or even $20,000 or $30,000 a year. These are people that are making an average of $6.50 an hour, who have served this country, have defended this country, have fought for this country, who have paid their taxes. When we think about what really basically America has been made of and hope fully is today, this is the iron in our country's back. And we are seeing them just gradually, gradually failing.

You know, I talked to textile people down in my district, and they do not want anything. They want a job. That is what they want—an opportunity for self-respect and to make a living and to support their families. I think we have an absolute obligation to do something about that.

I hear this Smoot-Hawley run across the stage every now and then when people get backed into a corner and cannot find anything else to say, but I have studied that and it is an entirely different situation than what we have today. You know, we as a nation, as a part of the GATT agreements, we entered into the Multi-Fiber Agreements freely with other nations. We came to an agreement. No one forced us to do it.

The unfortunate thing is that we have not been enforcing our part of that agreement. I mean, the world agreed that textiles needed some protection, that it was a unique category. That is why you have the Multi-Fiber Agreements to begin with. The problem is the Common Market has been enforcing their end of it, clamping down on the imports of textiles into their part of the world. Japan has done it; most of your Asian nations have done it. And what you have as a result of that is you have your Third World nations that are starved for American dollars. Because of the relatively low capitalization cost of apparel, particularly the apparel industry, and the relatively high labor intensity, they are flooding the world's markets with these goods. And we are the only place for them to sell because we are not enforcing our part of the Multi-Fiber Agreements, and we are letting them chase our people out of jobs.

It is not because we do not have an efficient textile industry. You know, the textile and apparel plants in this country are more productive than our foreign competitors. The Office of Technology Assessment has found that the productivity growth rate in the textile industry is the highest of all industries in U.S. manufacturing. Between 1975 and 1985, productivity levels increased more than twice that of total manufacturing. This means that American producers may soon be able to compete head to head on labor costs with some low-wage Asian countries. As a textile worker said in my district, he said, "Give us a chance. Give our textile industry the opportunity to sell our goods overseas."

Even with this impressive increase in productivity, it is still unfair to pit a $6.70 per hour worker's rate against foreign workers earning as little as a dollar a day. Under these circumstances, cheaply made imports are going to continue to flood into the open arms of retailers. Even if we were to reduce our labor costs and improve our productivity to a ratio that equals that of our competitors, what future is there when the borders are closed to us? South Korea, Taiwan, China, Pakistan, Bolivia, Brazil, the list goes on and on and on. All have erected barriers against us. Not only do they exclude our products, they subsidize their own exports to the extent that the United States is their best market.

On the issue of profitability, I would like to point out that the widely touted profit figures for the industry for fiscal year 1986 are welcome—we are glad—but do not have a long-term implication. The truth is that after a year like 1985 they had no way but to go up if we were going to have any textile industry or apparel industry at all in this country. Historical data clearly shows that the textile industry goes through dramatic cyclical swings. Last year was an up cycle following an extremely depressed 1985. All indicators were higher in 1986 as compared with 1985. Smooth out the ups and downs and a truer picture comes forth.

Unfortunately, many facilities had to be sold off last year to the encroachment of imported products on the domestic market. This resulted in a brief uptick in profits, but that benefit is short-lived. Textile and apparel plants are pared back to an absolute minimum now and are running as lean and mean as possible.

You know, Mr. Chairman, if you have two textile plants in a company and you close one of them down and shift every thing over to the next one, they still have a hundred percent productivity but you have eliminated all these jobs over here in the plant that you closed down. The apparel sector is showing worse statistics than the textile mill products, but they are all intertwined. The health of textile mill productions is clearly affected by the health of the U.S. apparel sector, with some estimating that the loss of the apparel sector would almost certainly doom 35 percent of the domestic textile industry.

I am not going to finish with my statement, Mr. Chairman, because of time, but let me just say in closing: Our textile and apparel industry is very, very valuable to this country. It is not only valuable; it is the number one low-wage, entry-level industry in the country. It is not only valuable because 1 out of 10 people employed in this country are either in textile or apparel or fiber industry, and all of the things that generate from that; but it is also very, very valuable to us as a part of our national defense effort. I think it was Secretary Brock who said several years ago that the textile and apparel and fiber industry was second only to the steel industry in our defense effort. We just cannot let this industry go down the tubes. And I am not asking that you put the textile and apparel industry in some vacuum with no competition. What we are asking for is some little bit of legislative help to give them an opportunity, a kind of a breathing spell, to kind of regroup and get strong so that we can continue to compete in world markets.

That is not going to be an answer to all the problems, but I think the apparel industry and the textile industry has done their part in their productivity, in their investment. It is a small thing to ask that our Government should help them just a little bit, whereas we are competing with nations all over the world that are really involved in subsidizing and really involved in closing their markets to our goods.

Thank you very much, Mr. Chairman, for the opportunity to appear before you.

[The statement of Mr. Derrick follows:]

TESTIMONY BY
THE HONORABLE BUTLER DERRICK

WAYS AND MEANS SUBCOMMITTEE ON TRADE
MAY 7, 1987

Mr. Chairman and members of the Committee, As Chairman of the Congressional Textile Caucus, I speak to you today in support of the Textile and Apparel Act of 1987, H.R. 1154. The Congressional panel assembled today will speak on various aspects of the issue in hopes of providing a comprehensive outline of the problem in the textile, apparel and footwear industries for the benefit of the Committee. We believe that H.R. 1154 is a sound piece of workable legislation that is backed by a majority of the members of Congress, from all regions and from both political parties in the House and Senate.

Before discussing the merits of my proposal, I would like to take a moment to point out a few pertinent facts about the real people involved in the textile, apparel, and footwear industries in the United States. These employees in my state are not earning exorbitant wages; they are contributing to the wise use of our country's natural resources; and in general, there is a harmonious relationship between management and labor. In short, we are talking about hard workers and good citizens who have been employed in the textile industry for generations.

I remember the words of a long-time textile worker in my district who was forced into retirement by the unexpected and unnecessary closing of his mill. "Give us a chance," he told me. "Give our textile industry the opportunity to sell our goods overseas!" Don't they deserve that chance?

I believe they do deserve that chance. We are not ignoring the call for competitiveness. The U.S. textile industry is literally pulling itself up from its own bootstraps: it leads the world in investment in modernization, reinvesting 80 to 85 percent of its retained cash flow. Our domestic textile industry is recognized to be the most productive of in the world.

Not only are our textile and apparel plants more productive than our foreign competitors, but the Office of Technology Assessment has found that the productivity growth rate in the textile mill industry is the highest of all industries in U.S. manufacturing. Between 1975 and 1985, productivity levels increased more than twice that of total manufacturing. This means that American producers may soon be able to compete head to head on labor costs with some low wage Asian countries.

Even with this impressive increase in productivity, it is still unfair to pit our $6.70 per hour workers against foreign workers earning as little as a dollar a day. Under these circumstances, cheaply made imports are going to continue to flood into the open arms of retailers.

Even if we were to reduce our labor costs and improve our productivity to a ratio that equals our competitors, what future is there when the borders are closed to us? South Korea, Taiwan, China, Pakistan, Bolivia, Brazil -- the list goes on and on -- all have erected barriers to us. Not only do they exclude our products, they subsidize their own exports to the extent that the United States is their best market.

On the issue of profitability, I would like to point out that the widely-touted profit figures for the industry for FY 86 are welcome, but do not have long term implications. The truth is, after a year like 1985, there was really no other place to go but up. Historical data clearly show that the textile industry goes through dramatic cyclical swings. Last year was an up cycle following an extremely depressed 1985. All indicators were higher in 1986 as compared with 1985. Smooth out the ups and downs and a truer picture emerges.

Unfortunately, many facilities had to be sold off last year due to the encroachment of imported products on the domestic market. This resulted in a brief uptick in profits, but that benefit is short-lived. Textile and apparel plants are pared back to an absolute minimum now and are running as lean and mean as possible.

The apparel sector is showing worse statistics than the textile mill products, but they are inextricably entwined. The health of textile mill production is clearly affected by the health of the U.S. apparel sector, with some estimating that loss of the apparel sector would almost certainly doom 35% of the domestic textile industry.

As you know, the Textile and Apparel Trade Act is a Congressional "finding of injury" to the textile and apparel industry. Simply put, the Act imposes a global quota on textile and apparel imports based on 1986 import levels -- the highest levels ever recorded. Furthermore, a one percent growth is allowed for each textile product category. No country is specified for preferential or discriminatory treatment. As is consistent with current trade law, the President has the authority to provide compensation for injury by cutting textile and apparel tariffs up to ten percent.

Mr. Chairman and Members of the Committee, I appeal to you on behalf of the textile worker who has lost his job. Moreover, I appeal to your concern about the economic future of our country. I do not want to witness the dissolution of one of the most critical components of our industrial economy, and I don't believe you do either. I urge you to look carefully at H.R. 1154 and report it favorably to the full Ways and Means Committee.

Chairman **Gibbons**. Thank you, Butler. I remember visiting one of the mills down in your area that had just closed down. I know the human suffering that goes on there.

Mr. **Derrick**. Well, Sam, I will tell you basically what Ed told you. We would sure like to bring those people up here to talk to you again if we felt we might convince you. You know, you have been very, very courteous, and I could not ask for a better friend in the Congress than you. But we sure would like to have your vote.

Chairman **Gibbons**. I understand that. I am not trying to be obstinate, either. I am trying to do what I think is best for the entire United States. I am sure you are, too.

Mr. **Derrick**. Thank you.

Chairman **Gibbons**. Who is next?

Mr. **Derrick**. May I say one thing?

Chairman **Gibbons**. Sure.

Mr. **Derrick**. I may have to leave in just a minute. We are meeting over in the Rules Committee. You know, it is kind of a rule a day on this defense authorization, and it is time to get out a rule for the day so I may have to leave. But I hope you do not construe it in any way as reflecting a lack of interest on my part.

Chairman **Gibbons**. Well, no. I understand, and I understand how important that is. That is the biggest one bill we have all year and it is very important.

Mr. Horton.

STATEMENT OF HON. FRANK HORTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK, AND MEMBER, CONGRESSIONAL TEXTILE CAUCUS

Mr. **Horton**. Thank you, Mr. Chairman. First of all, I did not want the subcommittee to think that this was all just a Southern and Southeastern problem.

Chairman **Gibbons**. No. I recognize that you have a large area in the textile business.

Mr. **Horton**. It does certainly cover the North, the Northeastern part of the United States.

Chairman **Gibbons**. That is correct.

Mr. **Horton**. I have been very much interested in this problem for a number of years. Some years back, probably 10 or 12 years ago, I appeared for the first time and took a position publicly. The Amalgamated in my area had a public meeting in Rochester, N.Y.; prior to that meeting they had always been for open, free markets. But they became quite concerned because Rochester at one time had a large clothing manufacturing business sector. We had several companies up there that manufactured suits. We now have one—Hickey-Freeman.

We used to have several shoe companies in the Rochester area. They all closed. But I attended this meeting some 10 or 12 years ago, a public meeting at which time we talked about having a level playing field for trade. We were very concerned about what was happening to jobs. As I said, those jobs are all gone now because those companies are closed. Fashion Park is not there anymore; the building has been torn down. Bond's is gone. Many others that were there are all gone. The only one that is left is Hickey-Freeman.

Now, I was asked if I would talk in terms of textiles as they relate to the national defense. I do not know that it is necessary to talk about that because we do not seem to be bothered about it at all in this country. We do not worry about the fact that steel is being produced so much overseas and so little here. If we ever get into a war and have to depend on our neighbors for steel, it is going to be a real problem. We are tearing up railroads every day. It is a weak argument, I think, to present to the subcommittee that textiles are an important part of the defense effort of this country because we have not been willing to listen to that argument in the past. But I would like to say a few things in that connection.

When people think about textiles and apparel, most people just think about clothes. But the textile industry plays a critical role in our Nation's defense. Bill Brock, a former Member of Congress, Ambassador, former U.S. Trade Representative, stated, "Every U.S. industry insists it is essential for national security. Textiles is the only one we accept, and that goes back 20 years."

In a 1973 study of the textile industry and national defense, Dr. Steven Kennedy of the U.S. Army Natick Laboratories noted, and I quote, "In considering the importance of textiles to national defense, two distinct questions arise: Will there be a broad industry base to supply the needed military textiles by quickly converting on a large scale to provide sufficient quantities? Second, if the conflict were prolonged, would the industry base be adequate to meet the needs both of the military and civilian population?" The rapid decline of the American textile industry indicates that the answer to both of these questions, sadly, is no.

Dr. Kennedy noted a particular problem in the woolen and worsted industry, saying

> It is doubtful if what is left of the woolen and worsted industry can continue for the indefinite future even at its present limited production capacity, or be able to supply even peacetime requirements of uniform fabrics for the Armed Forces in the face of price competition from low-wage foreign countries.

Our former colleague in the Senate, John Tower, who at that time headed the Senate Armed Services Committee, added,

> Wool remains vital to our Nation's Armed Forces, and a domestic supply is essential. As chairman of the Senate Armed Services Committee, I shall continue to support this concept.

In 1954, the United States grew 137 million pounds of wool. Two years ago we grew 50 million pounds. This is a crisis situation which should not be ignored.

The U.S. Government currently spends about $1.5 billion each year to procure clothing and textiles. More than 300 different "combat essential" items are used by our Armed Forces—items like chemical-treated suits and rubber and nonrubber footwear, as well as traditional products like pants, shirts, and undergarments.

But there are a tremendous number of nontraditional uses for textile products that play a vital role in our defense. Items such as grenade and bomb decelerators, fuel cells for helicopters and airplanes, parachutes, truck tire components, helicopter blades and fuselages, missile casings, airplane brakes, tiles for the "belly" of the space shuttle—all these are important to the national defense, and all are produced by the textile industry.

As many of you know, the Defense Authorization Act of 1986 requires an annual report on the domestic textile and apparel industrial base. The first report, which was issued last June, contained many disturbing revelations. I will not go into the many conclusions the report comes to, but the following statement gives us a strong indication of its findings:

> Diminishing sources in the textile industry have seriously affected the production base since fiscal year 1984. This is evident by the man plant closings, reorganizations, and elimination of costly finishing capability. Of the established planned producers for fiscal year 1984 through 1986, 21 plants have closed and 15 additional plants eliminated finishing operations and reverted to goods production only. This problems continues in fiscal year 1986.

The report also said:

> Textile firms are currently confronted with foreign import penetrations and noncompetitive labor costs. Peacetime Government procurements are not sufficiently large enough to encourage mills to maintain otherwise unprofitable facilities.

In a 1985 report, the Defense Department concluded that during a period of even only limited military mobilization, there will not be enough combat boots available. If the domestic footwear industry continues to decline at current rates, the report found that domestic producers could not even supply peacetime military needs. That is a travesty, and the bill we are discussing today, H.R. 1154, is a reasonable response to this dangerous problem.

The finding is clear: The continuing deterioration of our textile industry has clear and dangerous ramifications not only for the industry and for our national economy, but for this country's vital national security needs.

Mr. Chairman, you have heard and will continue to hear each and every concern that has been raised about H.R. 1154 has been addressed. The bill is more responsible than the one that we had last year, but it is still responsive. Responsive to the needs of the textile and apparel industries, responsive to urgent national security needs, and responsive to our trading partners. The House, through the yeoman efforts of this subcommittee, just passed a tough but fair trade bill. It was an important and necessary step.

But it was only the first step. H.R. 3 is not a cure-all. As I have shown, the textile industry is a critical part, not only of our national economy, but also of our national defense. I am not prepared to abandon the textile industry, and I hope the subcommittee will join me in that support. The question is no longer the industry's expansion. The question is one of sheer survival.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you. Do you all have a batting order that you go by down there?

Mr. HORTON. We do not have one, I do not think, although on your list you have got Mr. Price next. Just go down the list: Mr. Price and Hal Rogers and then Bill Hefner.

Chairman GIBBONS. I was going to recognize Bill's gray hair before I did Mr. Price.

Mr. PRICE. Yes, please do. Mr. Hefner has a meeting, and so I gladly defer to him.

Chairman **Gibbons**. Besides, Bill stomped all over his district with me, and I appreciate it. It was a great hot day, but it was a good, productive day, Bill.

STATEMENT OF HON. W.G. (BILL) HEFNER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA, AND MEMBER, CONGRESSIONAL TEXTILE CAUCUS

Mr. **Hefner**. Thank you, Mr. Chairman. I want to thank you for coming to our district and showing your concern for the textile workers in our district.

I will be very brief, and I would like for my entire statement to be part of the record.

Chairman **Gibbons**. Yes, sir, it will.

Mr. **Hefner**. I think what we come down to is a problem of enforcement. The MFA calls for a 6 percent annual growth in imports, and yet we have averaged some 20 percent per year since 1980. If we had had adequate enforcement, I do not believe that we would really be here in this situation that we are in today.

I would just like to mention a couple of things. Mr. Jenkins mentioned earlier that some of the real violations were made simply because we did not have adequate Customs agents, and yet in our Appropriations Committee we have continued to appropriate money for more Customs agents, not only to police the textile industry, but all the violations. It is not a spending thing, it is not a big spending bill; we know that every dollar we spend for Customs agents we get back $17 in return. That would not solve all the problems of the textile industry, but it would go a long, long way if you had enforcement, if you had adequate Customs agents to enforce the illegal imports that are coming and have them checked as they come into this country.

Also, I would like to mention this, which is not part of my statement, but Mr. Horton was talking about it as it relates to the defense of this country. You know, I think that we have to tie together and make agreements with our trading partners and call to their attention the fact that the United States spends some 30 percent of our total budget for defense. We meet our agreements, and some of our partners that we have agreements with for defense of their countries, when they have lean years and have problems, they do not meet their goals. I am chairman of the Military Construction Subcommittee, and when we talk with the Koreans, the Japanese and the people that we have pacts with, we meet our commitments that we have with these countries for defense. Perhaps maybe if it were tied together where they spend a little bit more for the defense of their country, they would have less money to spend in a roundabout way for subsidizing their industry.

All we are asking for, Mr. Chairman, is for an overall scrutiny to find out why it is that we are not being treated with a level playing field with all of our trading partners throughout the world, not only in textiles but in steel and all of these other areas.

Somebody said kind of facetiously the other day that if we went to war we had better pick on somebody that we do not have to buy boots from. If we get into a war with somebody that makes boots, we are going to be in a heck of a shape because we are not going to have any boots and the things that would supply our troops.

So, Mr. Chairman, I would urge the members of this committee to look very closely at this legislation. We think that it is a reasonable approach to helping the textile industry in this country to survive, to remain viable. We just believe that a level playing field with everything being on equal terms, the American people will buy American. And we believe that if everybody has the same level playing field and everything being level that the American textile workers can compete with anybody in the world.

All we ask is fair treatment. We are not asking for out and-out protectionism. We are just asking for a level playing field and fair treatment in the world markets.

I want to thank the committee for taking this time to let us air our grievances, and I hope that you will look very closely at this bill that we have put forth for your scrutiny this year.

Thank you, Mr. Chairman.

[The statement of Mr. Hefner follows:]

SUBCOMMITTEE ON TRADE
HOUSE WAYS AND MEANS COMMITTEE
HONORABLE W. G. (BILL) HEFNER
EIGHTH DISTRICT, NORTH CAROLINA
MAY 7, 1987

MR. CHAIRMAN, I am very grateful to you and to the committee for holding these hearings on H.R. 1154, the Textile and Apparel Trade Act of 1987. As you know, I have long fought for legislation that would mandate the Administration to enforce our trade laws as they apply to the textile industry.

Chairman Gibbons was very gracious in giving his time and attention to some 1500 of my textile workers at a hearing on this subject in my district in June of 1985. You heard first hand, Mr. Chairman, of the impact that textile imports have had on the workers in the industry.

Mr. Chairman, this situation has not changed. The textile economy in my area is still feeling the effects of the 200% increase in imports since 1980. Yes, the employment picture has improved somewhat, but we lost 64,000 jobs from January 1984 to September 1985. The employment gains we have made recently certainly do not offset the 300,000 jobs lost since 1980.

And I would also point out that orders and shipments for domestic production are down in the beginning of this year. With imports continuing to flood our markets, we cannot expect this employment trend to continue.

We have made considerable adjustments in this bill over H.R. 1562 which the President vetoed last Congress. It establishes global quotas so that the Administration will have the flexibility to determine what countries should scale back their exports. It does not rollback trade as H.R. 1562 did. And it is consistent with our General Agreement on Tariff and Trade.

Yet, Mr. Chairman, I submit to you that if this Administration had effectively enforced the Multifiber Arrangement originally negotiated in 1973 to govern international textile trade, we would not be here today asking for this bill.

The MFA provided for a 6% annual growth rate in imports. Yet textile and apparel imports have grown an average of 20% per year since 1980. A new MFA protocol was negotiated and adopted in Geneva in July of 1986. Congress, through its passage of H. R. 1562, and the industry appealed to the Administration and our negotiators to improve the agreement.

With the exception of covering some additional fibers not even heard of when the 1973 agreement was negotiated, the new agreement does nothing to improve our situation. Industry spokesmen classified the new agreement as "an atrocity" and "an absolute failure which has so many loopholes that is is totally meaningless."

Under the MFA, we negotiate bilateral agreements with various countries. These agreements are continually ignored or abrogated in one way or another as countries such as China, Taiwan, Hong Kong, Japan, etc. find inventive ways to circumvent these agreements. Overshipment, transshipment, dumping, and government subsidies have become routine as a means for getting around the quotas set forth in bilateral agreements with these trading partners.

The opponents of this bill would say that the domestic industry has a remedy under Sections 201 and 301 of the trade law. Mr. Chairman, the enforcement is very poor. This Administration has turned a deaf ear.

The industry files countervailing duty petitions. The Administration negotiates agreements to suspend them. Charges of dumping are ignored.

And, Mr. Chairman, one of the greatest insults is the unwillingness of this Administration to add sufficient numbers of customs agents to help in detecting illegal textile and apparel imports.

Congress has specifically appropriated funds and directed the hiring of 600 to 800 additional customs agents to stop some of this fraud. These positions have not been adequately filled and we do not have sufficient inspections of imports to stop some of this illegal traffic.

And it has now come to light that our import-monitoring system is so fraught with inaccuracies that our trade negotiators are impaired in their ability to impose embargoes and issue calls for consultation with these countries when the situation warrants such action.

I commend my colleague Doug Barnard for holding hearings on this crucial problem before his Government Operations Subcommittee on Commerce, Consumer and Monetary Affairs. How can we effectively administer trade policy when we don't even have accurate data?

Mr. Chaiman and colleagues, we cannot afford "free trade." In reality it does not exist. In the words of noted international economist John Culbertson, --"By sacrificing our home market on the altar of free trade, we are condemning ourselves and our children to a future of fewer competitive businesses, fewer good jobs, less opportunity, and a lower standard of living." I join Mr. Culbertson in his assessment that it is time to rethink this issue and insist on a "mutually beneficial and balanced international trade."

Thank you.

Chairman GIBBONS. All right. Now, Mr. Rogers.

STATEMENT OF HON. HAROLD ROGERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KENTUCKY, AND MEMBER, CONGRESSIONAL TEXTILE CAUCUS

Mr. ROGERS. Mr. Chairman, let me thank you and the members of the subcommittee for hearing us out this morning. I have the privilege of representing a district in Kentucky with 13,000 textile and apparel workers in a State that has about 32,000. So it is a considerable part of Kentucky's economy and a considerable part of the economy in a more depressed part of the State.

In summarizing my prepared testimony, Mr. Chairman, let me emphasize a large and important dimension to the problem our textile and apparel industry has faced over the last several years—years of absolutely enormous import penetration. The American industry is not simply competing against private counterparts abroad. This is not a free and open competition between one industry in the United States against an industry in Singapore or Taiwan or Korea. It is a scrap against foreign governments that carefully structure protectionist policies in their own countries, aimed at insulating their domestic markets while subsidizing their export operations. It is not a fair fight.

Most of the nations with which we are competing are subsidizing their industries in one form or another. They combine these financial incentives with import restrictions, outright bans, even, and a variety of tariff and nontariff barriers. Even nations with what I consider very healthy industries—Taiwan and South Korea, for example—have established their positions with tough barriers and generous incentives orchestrated by their governments. These countries are not preparing for the day when their industries will relax in favor of those of less developed nations. They have been gearing up in a concerted effort to continue their successful trade expansion.

How our industry is expected to compete against that kind of government intervention is beyond me, and I think beyond this committee.

I have here a compilation of foreign regulations, 283 pages, Mr. Chairman, of nontariff barriers used on top of the financial incentives that I have just described. This is what we are having to fight. We are also continuing to battle against various unfair trade practices, quota circumvention, fraudulent export visas, and——

Chairman GIBBONS. Mr. Rogers, may I ask a question at that point?

Mr. ROGERS. Yes.

Chairman GIBBONS. That is an interesting document. What is the source of it?

Mr. ROGERS. This is a U.S. Department of Commerce publication from the ITA, a special report prepared by the Market Expansion Division, Office of Textiles and Apparel, and it is titled "Foreign Regulations Affecting U.S. Textile, Apparel Exports." So it is a compilation of nontariff barriers that our industry has to face in the countries to which we are attempting to export.

Chairman GIBBONS. That is just textiles, now?

Mr. ROGERS. Just textiles and apparel.

Chairman GIBBONS. Thank you.

Mr. ROGERS. So we are continuing to battle against various unfair trade practices abroad. Quota circumvention, as has been described here, fraudulent export visas, and other methods of evading negotiated import controls are permitting a high volume of products to enter the United States on the sly. Transshipment problems have been somewhat mitigated by the country-of-origin rules, yet illegal import penetration continues massively to occur. Just this past Sunday, as Ed Jenkins has earlier described, ABC news reported that Korean exporters had been illegally shipping between 50 and 80 million yards of polyester fabric through Japan and other Asian countries, between 50 and 80 million illegal yards in just one contravention of our laws.

Over several years, these items have been channeled to the other countries, relabeled, shipped to the United States in a clear attempt to evade Korean quotas. These schemes are difficult to police given our undermanned Customs Service, and they are killing this industry in this country.

As an aside, Mr. Chairman, I should remind the subcommittee of the competitive advantage exporting nations enjoy in the absence of regulation. I speak to the minimum wage laws that we have that they do not, environmental laws and requirements that we have that they do not, OSHA requirements that we have that they do not, income tax that we have that they do not, property tax that we have that they do not, and so on and so forth, and other regulations that never even were thought of abroad that our industry has to operate under in this country. Twenty-cent-an-hour wages is our competition. Hazardous working conditions beyond belief. If you have been in those factories over there in Hong Kong—and I am sure that you have—you see the dangling wires and the water on the floor and dank working conditions in the summer, unheated in the winter. That is the kind of competition that we are having to fight overseas, meaning significant cost advantages for our foreign competition.

Mr. Chairman, the unfair policies and trade practices mentioned in my testimony are terribly germane to the debate over the legislation before us. The industry by itself will never climb back on its feet against those kinds of odds. There is no human way that can ever occur. The preceding years of unrestrained import growth have demonstrated the inability or outright unwillingness of our import program administrators to take corrective action.

This country is still a sieve for textile imports. The only way to effectively manage the problem is comprehensively through the import regulation that this bill's global quotas provide. It is clear to me that the developing nations and major exporters are as determined as ever to continue their mercantilist ways. If we do not begin to respond accordingly, along with the measures in this bill, we will have gambled away our industry's recent investments along with the jobs, the income, and the community stability that the textile industry is providing and can provide. It is an industry worth saving, Mr. Chairman.

I urge the subcommittee to join with us on this bill and see the wisdom that we think the bill demonstrates; the corrections that were made from last year's bill that many of you had some problems with have been corrected. So we urge you to help us with the bill.

Thank you.

[The statement of Mr. Rogers follows:]

STATEMENT OF HON. HAROLD ROGERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KENTUCKY

Mr. Chairman and members of the subcommittee, thank you for the opportunity to testify in support of H.R. 1154, the Textile and Apparel Trade Act of 1987. I come before this subcommittee as the representative of a congressional district with over 13,000 textile and apparel employees, in a state that employs over 32,000 textile workers. Kentucky's textile and apparel industry, while not immune to the import surges over the last several years, has been relatively stable in terms of employment. This is not to say that plants have not closed, or adjustments have not been necessary, for both have occurred. This also is not to say that employment opportunities have increased, for the increasing foreign market shares have closed off such opportunities. My companies are in fact under great pressure, and the potential propagation of damage already created by imports is of utmost concern.

I also come before this panel as a member of the Congressional Textile Caucus, a group of members distressed over the current state of our industry, and convinced of the serious injury that has been caused at the hands of foreign exporters. I want to thank this Subcommittee for holding hearings on what I believe to be the only effective response to years of damaging and unfair import growth, the Textile and Apparel Trade Act of 1987.

Members of this subcommittee are by now fully enlightened as to the trade position of the U.S. vis-a-vis the rest of the world in a host of different products and services. The position has changed substantially, and our traditional laissez-faire approaches have been made subject to endless examination in light of a highly competitive global marketplace. In just a few recent years, we have assessed our relatively open system in terms of a broad range of domestic products whose markets have been penetrated from abroad.

Textiles, on the other hand, have been treated differently for decades. The evolution of the Arrangement Regarding International Trade in Textiles, or the MFA, came out of recognition of the need to protect the domestic industries of developed nations from disruption, and permit adaptation to changing economic conditions. At the same time, it recognized the needs of developing nations, dependent on a basic industry like textiles, to grow economically.

The last several years, however, have demonstrated how differently parties to the MFA have behaved. An extremely dynamic textile and apparel marketplace has revealed the U.S. to be a relatively open trader, pitted against developing and advanced nations whose mercantilist behavior has ravaged our domestic industry. Since 1980, textile and apparel imports into the U.S. have more than doubled, sending a shock wave through an industry now reduced by 1000 plants and hundreds of thousands of jobs.

The massive imports have been attributed to a variety of conditions, which include a strong dollar, economic changes in the EEC, deficiencies within our own industry, weak administration of our trade rights, and others. One large dimension of this problem deserves special attention, in my view, as the subcommittee evaluates the need for this legislation.

Our domestic industry is presently going head to head against nations which exercise a series of unfair policies and practices that have no counterparts in this country. Our industry competes with countries whose governments intervene extensively on behalf of their own textile and apparel industries -- providing various and vast aspects of protected markets and subsidization. Developing nations, which represent the fastest growing markets and account for most of our imports, sanction import barriers and export strategies against which our industry cannot compete.

Our industry also finds itself up against innovative foreign exporters who use any type of legal or illegal method available to circumvent negotiated quotas or exploit loopholes in our trade agreements.

Extremely serious legal and illegal obstacles to fair textile trade have contributed to our current import levels, and they have gone relatively unanswered by our government. The Subcommittee would benefit from a thorough review of these obstacles and protectionist policies, several of which I would like to review.

Many competing nations have utilized government subsidization to heavily influence their respective industries' positions within the world market. Industry analyses indicate that part of this activity is among countries whose own industries have faced difficulties competing internationally, leading to government sponsored measures specifically designed to support the industry. Two of our largest competing exporters, Taiwan and South Korea, have offered significant financial incentives, coming in the forms of tax breaks, import duty-free zones to promote exports, and preferential allocation of low cost credit. These countries are not looking to make room in their markets for other developing nations; their concerted efforts are towards expanding their own trade volume through subsidization.

Nations with less developed industries are also unfairly subsidizing their textile industries. In the Philippines, credit at below-market interest rates has been used by its Central Bank to finance production and export of textile products. The government of China, as the subcommittee is probably aware, has made a vibrant indigenous textile industry one of its economic priorities. Its current domination in the U.S. market owes greatly to substantial governmental planned guidance, including special tax and regulatory treatment, priority with respect to raw materials and services, and preferential loans. China also has used manipulation of foreign exchange rates to discourage imports and promote exports. In recent months, the PRC has become the leading textile exporter into the U.S.

Our industry also faces unfair competition in the form of foreign import barriers, which, while legal, indirectly result in enhanced penetration of our much less protected markets. Over the years many nations have implemented outright bans on certain categories or sectors of textile and apparel. Examples cited in a recent report by the Office of Technology Assessment include Bolivia's ban on outerwear and undergarments, Egypt's ban on certain woven fabrics, and South Korea's strict system of import restraints, which requires approval of imported items by the government or an industry association.

Taiwan, whose massive exports have created severe harm in this country, has protected its own markets with virtual bans on apparel items, and used other controls to permit imports only on the condition that they are incorporated into products designated for exportation.

These barriers have often been combined with extremely high protective tariffs and duties, such as the Philippine government's 100 percent tariff on wearing apparel imports, or Brazilian duties of up to 200 percent on a range of textile products. Citing again from an OTA report, a 1984 General Agreement of Trade and Tariffs (GATT) survey reported average tariffs of 25 to 75 percent among twenty-one major developing nations, the majority of which also implemented various quantitative restrictions on textile imports.

These kinds of policies have been indirectly responsible for some of our record imports. As countries have combined aggressive interventionist export strategies like subsidization with import restrictions and market protection, the exports of developing nations have fallen into the American market. Recent analyses of global textile and apparel trade have pointed to the stringent textile import restrictions put in place by Japan and the EEC, creating a situation in which some 60% of all world imports from less developed nations have gone into the U.S. Both the EEC and

Japan have in the past sought to actively protect their markets; the EEC using MFA-permitted restraints, and Japan setting up non-MFA bilateral agreements. These analyses have asserted that the effect of this protectionism has been to channel exports into the U.S.

Since the U.S. government has not intervened in similar manners, our industry has seen its domestic market ravaged by these protectionist policies. However, our industry suffers from numerous unfair trade practices as well -- steps used by exporters to legally or illegally avoid whatever restrictions the U.S. has established or negotiated.

For example, foreign exporters have exploited our often lax bilateral agreements by shifting quotas from one product to another to circumvent restrictions (much of the problem here lies in the structure of our agreements, which permits legal means of circumvention, a situation U.S. trade officials have not adequately corrected). Exporters within a country often have shifted from controlled categories of textiles to producing categories which are not specified for control under an agreement -- creating import surges which the U.S. industry must bear pending government action to negotiate controls on the particular product (consultation calls). A recent article in the JOURNAL OF COMMERCE quotes officials of the China National Silk Corporation on the subject of blending silk with materials under U.S. quota restrictions in order to avoid the quota. Since silk products are not covered by a quota, the exporter stated he could blend the materials, avoid the quota, and expand his markets.

One of numerous other methods of circumvention is transshipment -- using a third country, whose exports to this country are not controlled by quotas, to channel products from a country whose products are restricted. Our experience with Hong Kong, another major exporter, has shown that territory to be a major benefactor of transshipment. While quotas exist on Hong Kong products, shipments from the country of origin have been shipped through Hong Kong and charged against its quota rather than the quota of the originating country. Hong Kong has also taken advantage of cheap, subsidized fabric made in neighboring China, which it imports and combines with low Hong Kong labor costs to ship inexpensive apparel items -- a clearinghouse method of shipping products from all over East Asia in circumvention of our textile agreements.

While transshipment problems have been helped by the country-of-origin labeling rules implemented in 1985, our industry is still hampered by illegal practices stemming from abroad. Just this past weekend, a major television network reported that over the last several months, Korea has shipped between fifty and eighty million yards of polyester fiber and fabric, above their allowed 95 million yard quota via Japan. Upon arrival in Japan, Korean marks or labels were stripped and replaced with Japanese tags, and then shipped to the U.S. as Japanese products. Proliferation of these kinds of fraudulent activities are unfair, difficult to control, and damaging to our domestic industry.

Industry representatives and U.S. Customs officials also report serious fraud occurring in the form of forged or counterfeit export visas, and shipping invoices which understate the value or physical volume of shipments. These rampant illegal practices can allow millions of dollars worth of textiles and apparel to flow into our markets.

Even though laws and agreements exist to permit orderly trade, the U.S. government is ill-equipped to enforce these controls. The U.S. Customs Department is, in my view, grossly undermanned, and unable to adequately inspect shipments. In fiscal 1986, Customs recorded 581 textile seizures valued at $28.5 million. However, it is estimated that no more than two percent of textile and apparel shipments are actually inspected. In effect, we have been unable to effectively monitor a textile trade volume that has tripled over recent years.

Our industry deals from one other competitive disadvantage, about which I wish to briefly remind the Subcommittee. While the U.S. refrains from the internal textile industry policies and unfair trading policies used by developing nations, we have pursued domestic policies which exact costs on our industry not incurred abroad. I speak to minimum wage laws, environmental requirements, occupational health and safety requirements and various other regulations all designed to achieve very worthy goals. These requirements are for the most part not replicated abroad. Twenty cent per hour wages and hazardous working conditions mean significant cost advantages for foreign exporters.

Mr. Chairman, the U.S. textile and apparel industry faces an enormous number of obstacles to the establishment of prolonged health. It is in the midst of changing economic conditions, some of which it can adapt to, and some of which it cannot possibly compete against. The damage to our industry has come as a result of a number of factors, including changes within the world economy, weak negotiation of our textile trade agreements, poor administration of the complex regime of agreements we do establish, and poor enforcement of our import program -- non-legislative remedies which have not been utilized either due to extreme difficulty, or due to a failure to apply the remedies at our disposal. Promises to improve the latter have proven dubious.

The foreign protectionist intervention and unfair trading practices I have outlined are terribly relevant to the plight of our industry since they are difficult for our industry to counteract, given this country's history of negotiation and enforcement. Imports continue to soar as a result of the non-economic practices used by our trading partners in textiles. Their role has been interventionist, while ours has been passive. We have no responsive trade strategy.

I am convinced, therefore, that additional import regulation is necessary. The subcommittee is aware of the investment now going on within the textile and apparel industry. Its efforts to restructure are active and ongoing, as they must be. The industry must continue to find competitive market niches, and export markets (although historically, exports have been a relatively small part of U.S. production). My fear, however, is that without legislative relief, the industry will face further severe declines despite its best efforts. Our trading competitors are just as aggressive and mercantilist as they have been over the years; they are just as unwilling to let their respective textile industries fade. We must change our policies in response to their challenge. If we do not provide the global quota controls in H.R. 1154, we risk gambling away our industry's new investment, and we will give up our important textile industry to foreign countries, along with the jobs, income and community stability the industry can provide.

I urge the Subcommittee to move ahead with the bill in its current form, and I again offer my thanks for the opportunity to testify.

Chairman GIBBONS. Thank you very much, Mr. Rogers.

Mr. Price, we welcome you.

STATEMENT OF HON. DAVID E. PRICE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA, AND MEMBER, CONGRESSIONAL TEXTILE CAUCUS

Mr. PRICE. Thank you, Mr. Chairman. I appreciate the chance to appear as part of this panel today. I would like permission to submit my entire statement for the record.

Chairman GIBBONS. Absolutely. All the statements today will be put in the record without objection.

Mr. PRICE. And to make a very brief statement, summarizing that testimony.

Others have referred to the recent Office of Technology Assessment report on the U.S. textile and apparel industry, a report that concludes that, although the American textile industry is one of the most productive in the world, that technology alone will not be able to salvage major parts of the industry without some moderating of the flood of textile and apparel imports.

The United States has been one of the few nations in the world to leave its markets largely open to foreign sales of textile and apparel goods. Effective protection from imports in the near term, while the industry continues its revolutionary technical improvement, is essential. That is what the report concludes, and that is precisely what H.R. 1154 provides.

I would like just briefly to touch on two items not covered by the other panel members this morning: one having to do with the compatibility of H.R. 1154 with the General Agreement on Tariffs and Trade (GATT), and secondly the implications of exchange rate manipulations for our problem in textiles.

The bill is compatible with GATT. GATT article XIX states that if imported products "cause or threaten serious injury to domestic producers * * * the contracting party shall be free to prevent or remedy such injury."

Given that imports of textile and apparel products have doubled since 1980 and now account for more than half of the domestic market, given that this has caused a thousand plants to close and 350,000 jobs to be lost, in addition to 700,000 lost job opportunities—in light of all this, there can be no question that injury has occurred in the American textile industry.

I say that with some feeling because we in North Carolina have certainly borne our share of that burden. In our State, 304 textile and apparel plants either had to close or to lay off significant numbers of workers between 1981 and March of this year. During that period, 31,500 people in the textile industry and 11,500 people in the apparel industry have lost their jobs to layoffs or plant closings.

In the district I represent alone, five counties in central North Carolina, 13 plants have closed or had to lay off employees in this time period. Almost 2,500 people have lost their jobs. Injury has most definitely occurred.

Second, GATT holds that this finding of injury must be declared by an appropriate governmental authority. By passing H.R. 1154, Congress would be, in effect, finding that America's textile, apparel and footwear industries have been injured by imports.

Third, GATT requires that quotas must be global. This bill provides that. It requires that compensation for quotas must be provided. This bill authorizes the President to reduce textile and apparel tariffs by 10 percent as compensation to injured parties. Finally, the article XIX action is to continue only as long as injury or threat of injury exist. The bill also provides for that through annual reports to Congress and a full-scale review after 10 years.

Finally, let me just briefly touch on the question of exchange rate manipulations. Some have suggested that changes in exchange rates might be sufficient to stem the tide of imports. The evidence, I believe, suggests otherwise. The dollar has devaluated primarily against the currencies of Europe and Japan, but since the developed countries have increasingly protected themselves from textile imports and they provide only 20 percent of our foreign textiles, the OTA reports that devaluation is insufficient as a strategy.

Eighty percent of our imports come from low-wage, Third World, and newly industrialized nations, and those currencies have been tied to the dollar and, thus, largely unaffected by devaluation.

Mr. Chairman, I appreciate this chance to testify as part of this group. We have had a division of labor among us touching various aspects of this legislation. I think the evidence is particularly strong that this bill is compatible with GATT and that we simply must go beyond reliance on exchange rate manipulations to deal with the problem.

[The statement of Mr. Price follows:]

HON. DAVID PRICE
TESTIMONY BEFORE THE WAYS AND MEANS
SUBCOMMITTEE ON TRADE
MAY 7, 1987

Mr. Chairman and members of the subcommittee, I would like to express my strong support of H.R. 1154, the Textile and Apparel Trade Act of 1987, which currently has 220 cosponsors.

While the nation as a whole suffers from $170 billion trade deficits, the textile industry has its own record $21 billion trade deficit. This industry, which employs 2.3 million people in this country, must be maintained as a viable part of our industrial base both for the protection of jobs in the textile and apparel industry itself and for maintaining those jobs in service and manufacturing industries directly dependent on textiles. Recent closures of textile plants have been an unnecessary and devastating blow to small communities across the country, a blow this bill can help us avoid in the future.

In the State of North Carolina, 304 textile and apparel plants either had to close or lay off significant numbers of their employees between 1981 and March of 1987. During this period, 31,500 people in the textile industry and 11,500 people in the apparel industry lost their jobs to layoffs or plant closings, for a total of almost 43,000 North Carolinians displaced largely by cheap foreign imports. And in the district I represent, North Carolina's Fourth District, from 1981 until January, 1987 13 plants closed or had to lay off employees and almost 2500 people lost their jobs.

The recently passed Omnibus Trade Bill (H.R. 3) will not be sufficient alone to maintain these essential manufacturing jobs; the Textile and Apparel Trade Act of 1987 is a necessary complement to the omnibus bill. The bill would establish a total, global quota for foreign textile, apparel and footwear imports based on the record-setting 1986 levels. There would be no rollback to lower levels of trade and the Administration would be given maximum flexibility in implementation. Imports would be allowed to increase at 1% a year, consistent with the growth of the domestic market.

The bill represents significant concessions by the textile and apparel industry and its workers relative to last year's bill which was vetoed by the President. The stable trade environment it would create is essential if we are to keep American jobs at home in this modern and efficient industry which re-invests 80% of its retained cash flow. Textile productivity has increased at twice the average manufacturing rate for over a decade. It spends an average of $1.7 billion per year on new equipment and 70% of the industry's facilities have been installed within the last 10 years. The important and comprehensive recent Office of Technology Assessment (OTA) report on the U.S. Textile and Apparel Industry concluded that though the American "textile industry is one of the most productive in the world...technology alone may not be able to salvage major parts of the industry."

The report further states that "The United States is one of the few nations that has left its markets largely open to foreign sales of textiles and apparel...as a result, imports have flooded domestic markets. Unless policy action is taken in the next few years, there is reason to be concerned about the very existence of many parts of the industry...In fact, if penetration of U.S. apparel markets were to continue at the pace of the past decade (measured in terms of volume), domestic sales of U.S. apparel firms would approach zero by the year 2000, while two-thirds of the U.S. market would be served by imports."

OTA's strategy for saving this domestic industry from near extinction includes as an essential aspect effective protection from imports in the near term while the industry continues its revolutionary technical improvements. This is exactly what H.R. 1154 provides.

I would particularly like to address two issues of concern that may arise in consideration of the bill: whether it is consistent with the General Agreement on Tariffs and Trade (GATT) and whether a lower exchange rate for the dollar can sufficiently deal with the problem of import penetration into the American market.

I believe H.R. 1154 is indeed compatible with the three key provisions of GATT. First, GATT Article XIX, Emergency Action on Imports of Particular Products, states that if products are "imported into the territory in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers...the contracting party shall be free to prevent or remedy such injury."

There can be no doubt that injury has occurred to the American textile industry. Imports of textile and apparel products have doubled since 1980, increasing nearly 20% annually, and now account for more than half of the domestic market. "This rate of erosion of domestic market shares shows no sign of diminishing," the OTA report states. About 1,000 plants have shut down as a result of these imports and this translates into 350,000 actual jobs lost to foreign competitors who often pay as little as 20¢ an hour to their workers, and 700,000 lost job opportunities for American workers. The footwear industry lost another 500 factories, has an unemployment rate of more than twice the national average, and has lost more than 80% of the footwear market to foreign suppliers.

Second, GATT holds that this finding of injury must be declared by an appropriate government authority. I believe the United States Congress is indeed an appropriate and legitimate party to find and declare this injury. By passing H.R. 1154, Congress would be doing just that, finding that America's textile, apparel and footwear industries have been "injured" by imports.

Third, GATT requires that actions to remedy the injury must meet certain GATT criteria: quotas must be global, compensation for the quotas should be provided, and the actions will remain in effect as long as there is injury or threat of injury.

H.R. 1154 would establish global quotas; that is, the quotas would apply to all countries without discriminating among them. The President is authorized to reduce textile and apparel tariffs by up to 10% as compensation to those countries who can make a case that they have been adversely affected by the imposition of quotas. Finally, the article XIX action will continue as long as there is injury or threat of injury. The bill also provides for annual reports to the Congress and for review after 10 years of the operation of the program.

On the second issue of the impact of the exchange rate on imports, it is clear that simple devaluation of the dollar is not enough appreciably to slow the tide of imports of textile and apparel products into the United States. Quoting the OTA report once again, "The recent fall in the dollar's value with respect to the currencies of industrial nations will tend to provide only modest relief..."

OTA reports that Europe and Japan have been closing their markets to our products without regard to relative exchange rates while we have left ours relatively open to the world's imports. Therefore, the improvement in exchange rates with the industrial nations will not significantly affect textile trade with these nations. Our imports from Japan in fact increased 14% in 1986 despite the dollar's plunge against the yen and European imports have held steady or increased. Developed countries in any case supply only 20% of our textile and apparel imports.

More important, the real problem for textiles is with the less-developed and newly-industrialized countries, which supply the other 80% of our textile imports. As the OTA report goes on to say, "(M)uch of the growth in U.S. imports has come from nations like Korea, Hong Kong, and Taiwan, whose currencies are either tied to the dollar or have not changed significantly with respect to the dollar." Thus it apparently is going to take much more than exchange-rate manipulations to save our textile and apparel industries. It is going to take the Textile and Apparel Trade Act of 1987 to keep these crucial industries in the United States.

I thank the Chairman and the Subcommittee for its consideration of this important legislation and hope that you will report favorably on it in the near future.

Chairman **Gibbons**. Fine. Thank you, Mr. Price.

You are privileged to represent one of the most prosperous areas of the United States, as I see it. I have been an observer of North Carolina for quite some time, and I think what has happened is we are going through a great change in America and a great change in your area.

But even with that great change, the gross figures tend to show that the textile industry is one of the more profitable industries in the United States, is a growing industry. Its exports have increased, and while it has modernized, it has shed some jobs in previously labor-intensive tasks, but its overall long-term employment has remained relatively steady. When you examine GATT, I think you will find that the remedy that you talked of must be a temporary remedy. Your bill makes it a permanent remedy. And while there have been problems in the industry in the past, the industry has been making the technological changes and the consolidation-type changes that are necessary and that consequently the industry faces a bright, promising future.

Since you were fortunate enough not to be around this place during the Vietnam era, I think one of the problems that we had in the Vietnam era is we did not know when we really were through with that war. It appears that the same syndrome occurs now in your industry.

They have made the changes. They are productive. Their profits have gone up. They were amongst the most profitable of all industrial operations in the United States last year; and while there is a sick segment, it is not the textile industry. It is the garment industry.

I would recognize that the garment industry has not been able for many, many reasons—mainly technical reasons—to modernize—I should not say modernize, but has not been able to automate to the same extent that the textile industry has automated.

I am familiar with that OTA assessment of your industry. We are going to examine that more. I do not believe this is one of the more objective products that the OTA has released. I noticed who was the consultant on the project and I noticed who the review committee was on the project. I really have some serious concerns about the objectivity of that. But we are going to ask the OTA to come in and explain that study to us and to defend it.

I have mentioned a lot of things. Perhaps you would like to have some response to what I have said.

Mr. **Price**. Yes, thank you, Mr. Chairman.

I do not mean to come in here and present a picture of unrelieved doom and gloom. I do not think that is our intention today. And I think the legislation is a moderate approach to the problem that we face.

You are correct in suggesting that the area I represent in North Carolina is a prosperous area, an area that has experienced healthy growth and diversification. We have a lot of high tech. We have a lot of research as well as the traditional agricultural and textile industries.

Chairman **Gibbons**. As well as a new Congressman.

Mr. **Price**. As well as a new Congressman; that is right.

The picture is mixed, though. The picture is mixed, and those general statistics can be somewhat misleading. We do have pockets of real distress, and particularly in the western most counties of my district we have had repeated plant closings, layoffs. We have had, we estimate, something like 2,500 jobs lost in the last 5 years.

Now, if you walk into a textile plant in my area, you are going to find a modern, efficient plant. You are going to find that tremendous investment is being made in equipment. You are going to find anything but that stereotypical 19th century backwater. This is an industry that is able to compete, willing to change, willing to invest, but it cannot do that successfully when subjected to a literal flood of imports and subjected to the failure to enforce our existing trade agreements.

What this bill provides is for an orderly market growth. It is not rolling back anything. It is providing for an orderly market growth, a relatively stable environment in which the industry can do what needs to be done. I think the industry has taken tremendous strides. I am encouraged by the figures on profitability. But as you know, that is often a cyclical phenomenon and, as you also know, this industry needs to maintain profitability because tremendous investments need to be made.

Chairman GIBBONS. I think one of the problems that we have in dealing with all the testimony here is that we tend to mix the garment industry with the textile industry. Frankly, I know that one seems to be dependent upon the other, but when you mix those two industries figures, you come out with a far different picture than if you look at the textile industry alone.

The textile industry is very competitive. It is very profitable, but if you throw the garment industry in with it—and the two are not necessarily the same—you are going to come out with a much diluted picture. Perhaps we need to do something special for the garment industry, but I think that the textile industry has raised to a position that it can stand on its own feet and can profit on its own feet. That is what the figures seem to say to me.

Now, would you like to respond to that?

Mr. PRICE. Well, let me just reiterate that this bill is designed to provide the conditions where the industry can do just that. You know, we are not talking about bailing anyone out. We are not talking about an inordinate amount of protection. What we are talking about is providing for orderly market growth and an environment in which the industry can help itself. I think they have done an admirable job of modernizing, of investing. This bill will simply create a framework where that can continue.

Chairman GIBBONS. Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman. I would like to thank our colleague, and I am sorry that our other colleagues' duties precluded them from staying throughout.

One question that I posed earlier was about the decline in the manufacturing of production equipment for the textile industry, I wonder, Mr. Price, whether you have any thoughts on it or whether any of that was produced in your area and is now gone, or is it just the textile production itself.

Mr. PRICE. No. That kind of equipment was never produced in our area, as far as I know. I have observed the same thing that you have, though; when you look at these modernized plants, you see the kind of equipment they're using, most of it is of foreign origin. In my area, it seems to be mainly of Italian origin.

So there is no question that that decline has occurred. Our area, of course, has been mainly affected by the plant closings of textile firms themselves. But there is no question that the trend in equipment use that you point to is a real one.

Mr. SCHULZE. It seems to me it goes hand in glove that the engineers on the production line look at the equipment and say, "I can make that equipment a little bit better. I can make this operation more efficient. We can produce more or better." And if we do not resuscitate the equipment producers, if we do not develop an industry, it may be long-term but nothing we do here is going to save the textile industry.

I think that we need both. So I would strongly urge that you and your colleagues who have testified today and who are concerned deeply with the textile industry look at this aspect as well and perhaps see if we cannot formulate a program, maybe even some set of tax incentives or something to encourage the revival of that industry in the United States.

I thank you for your testimony and appreciate very much your taking time to be here.

Mr. PRICE. Yes. Thank you.

Chairman GIBBONS. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

I would like to commend our witness, Mr. Price, and all of the previous witnesses in their absence for their good testimony. We appreciate having it.

I think, Mr. Price, it shows a great deal of faith that your colleagues have in you that they would leave you here to defend this bill all by yourself. I have not had the pleasure of meeting you, but you must be a very talented man, indeed, to be able to handle all this.

I will not test that out by asking you very many penetrating questions. I would just like to make a statement, though, Mr. Chairman, which I think is important given the testimony of all of our colleagues.

There has been a rather consistent thread running through the testimony we have had today from all of the Members of Congress. Essentially, it is that we are in the trouble we are in in the textile industry and the apparel industry because the MFA has not been enforced, because we do not have enough Customs agents and all the rest. I think it was Mr. Hefner who said, "If we had had adequate enforcement over the years, I do not believe we would be here today."

I find it somewhat ironic that this administration is so bitterly opposed to this textile-apparel bill when, to a large degree, it has brought its troubles on itself because it has simply failed to enforce the MFA agreement that it signed and apparently is not enforcing the current one that it signed last year.

Beyond that, the administration has come to us every year since I have been on this committee asking for fewer, not more, Customs agents. It seems to me that if the administration this year gets a textile bill passed and made into law over its objections, it is going to have no one to blame but itself for that situation.

That is not a question. It is a statement. You may react, if you wish, but I do not expect that you need to.

Mr. PRICE. I will react simply by way of agreeing that these agreements have long been in place; there is abundant evidence they have not been enforced. Had that enforcement been steady and certain over the years, we might very well not be here today.

Mr. PEASE. That does prompt one question. Could I just ask you what would you think if we were to take the approach of making the enforcement of the MFA airtight from this year forward? The additional textiles allowed into this country under this bill are not that much different, as I under stand it, from those which would be allowed in under the MFA and this puts a statutory limit on. I just wonder if an alternative approach which would be legal under the MFA would not be really hammer and tongs enforcement of the MFA provisions?

Do you have any reaction to that?

Mr. PRICE. Well, there is no question that the MFA properly enforced is compatible with this legislation. The President would have a great deal of flexibility in implementing this legislation. One approach would be to leave the bilateral agreements intact and then make decisions about limiting other suppliers. That is not the only approach that could be taken, but it would certainly be one option.

As to whether the MFA itself is adequate, though, I think the answer to that is clearly no. The problem is increasingly not those MFA countries, but these secondary suppliers who are rapidly becoming major suppliers, new suppliers. We have MFA countries going around the agreements and working through third countries, so I think it would be a major step forward, of course, to enforce the MFA properly. That is compatible with this legislation.

I do not think, though, that that addresses the totality of this problem.

Mr. PEASE. Thank you very much. Thanks, Mr. Chairman.

Chairman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. David, we are appreciative of your presence here. It is your first time before this committee, and we hope it will not be your last one.

Mr. PRICE. Thank you.

Mr. FRENZEL. We are kind of sorry your pals have run off and left you and subjected you to all the questioning, but I guess that is the way it works around here sometimes.

Several members of the committee have already suggested that the textile industry is not doing so bad. Wall Street gave it a 90 percent boost in value in 1985, and a lot of brokers are still badgering me to buy textile stocks. Unemployment in textiles and in your State is quite low. By national standards factory utilization is quite high. Ed Jenkins referred to that and made a response that factory utilization was not very important, but I am a little nervous about industries that are doing pretty well and whose employees are doing pretty well coming here asking for a little more help and a little more help. The even playing field that one of your colleagues requested is simply to tighten down on the quotas and not let the opposing team play at all.

Let me phrase it another way. The consumers of the United States are paying well over $20 billion a year already for textile protection. It is threatened that there will be severe retaliation if we are to pass this bill. So you are sitting in a State whose unemployment rate is 20 percent below the national average, asking other States to absorb unemployment from retaliation and asking other States to have their consumers pay more money to protect your industry and your employees.

Does that bother you a little bit? Does that argumentation make you feel greedy or not?

Mr. PRICE. No, it does not make me feel greedy because I think those overall statistics can be very misleading. I do not think there is any question that the textile apparel and footwear industries are under severe duress. And while I am very pleased with these profitability figures that you note, the fact is that a lot of that is produced by the elimination of facilities that have been made redundant by imports, a consolidation of facilities. Those figures cover a great deal in the way of plant closings and a great deal of human dislocation.

The distress that we have suffered in our State is very real, and the overall unemployment statistics mask a great deal of that. There are pockets of unemployment, pockets of economic displacement that have certainly affected my district, affected much of the State.

Let me stress again that this is not Draconian legislation by any measure. It has been greatly changed to meet objections since the last time we looked at this matter. We are not talking about rolling back anything. We are talking about moderating market growth, creating an environment in which this industry can continue to progress toward modernizing and toward helping itself. I think it is a reasonable approach. I do not think it invites retaliation. It is a moderate approach that makes a great deal of sense in the environment in which we find ourselves.

Chairman GIBBONS. Would the gentleman yield?

Mr. FRENZEL. I certainly will yield.

Chairman GIBBONS. One of the problems we have had in this whole debate is what are the proper figures, and I have in the past used mistaken figures for which I apologize.

Now, our staff has published figures, and perhaps we have not given them to you, but we have given them to the members of the subcommittee, and they are certainly available to all of the public. I hope that during the debate this year we can all agree on what the figures are.

Now, the figures that I have show that, while there have been closings down of plants, there is increased capacity in the textile industry. There is not a diminishment of capacity; there is increased capacity in the textile industry; and that even with this increased capacity, plant utilization is high, it is as high in the textile industry as it is in any industry. It is probably about at maximum capacity. That is the figures that I have.

Now, I am not fussing at you. You were not here in the last session of Congress. But it is almost like we were in a different world and not talking about the same industry when we talked about this industry. And I hope now that our committee has published the facts as presented to us by our government that if those facts are not right, for Pete's sake, the people in the industry will come in and say where the facts are wrong.

Excuse me for interrupting, but that has been one of our serious problems in this whole debate.

Mr. PRICE. Well, with all respect, Mr. Chairman, I certainly agree with the need to get the facts straight and to look very carefully at this OTA study in particular. But the industry is, I think, faced with a kind of Catch-22 situation. The industry has been criticized in the past for failing to modernize, failing to invest, failing to do all it should. Now that those processes are demonstrably under way, that seems also to be thrown back at the industry saying, well, it looks like this is special pleading and the need for help really is not there.

As I say, it is not a picture of doom and gloom in an unrelieved fashion. We are talking about an industry that has made great strides. We are talking about creating an environment for further progress.

Chairman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. Thank you, Mr. Chairman.

I was going to note, too, that there was an increase in the last quarter in the number of employees in the field, and that is not true of many other industries who are likely going to have to pay the price for textile protection in the form of retaliation. For instance, in agriculture; for instance, in automobiles; for instance, in many other industries.

You indicated that the industry has been going through modernization and rationalization. One of the things this committee noted, or some members noted, I noted, when we took our field trips through the textile areas the year before last was that we believed that that modernization would have taken place whether or not there was any foreign penetration of our market anyway. We looked at mills that were brandnew, and we looked at operations which should have been made in the A-bomb test sites. I am convinced myself that much of the modernization would have happened anyway, and I had the nagging feeling that the managements were conveniently blaming employment dislocations that would have taken place in any case on foreign imports.

I yield to the gentleman from Ohio.

Mr. PEASE. My point is not directly related to that. So if you want to pursue it or if the witness wants to pursue it, go ahead.

Mr. FRENZEL. Did you want to comment on that?

Mr. PRICE. Well, there is no question there has been some dislocation that modernization itself has caused. In many cases, though, new jobs have been created in other labor intensive phases of the operation. I know that is true in a number of plants in my district where the layoffs and job discontinuations you might have predicted in light of modernization have been offset by increased employment in packaging and other labor-intensive aspects of the operation. So the dislocation is not as great as some have suggested.

Mr. FRENZEL. I yield to the gentleman from Ohio.

Mr. PEASE. I appreciate the gentleman yielding.

I echo Chairman Gibbons' hope that we can operate from a common base of information and proceed on that basis. In the interest of balance and perspective, I would hope that the staff, Mr. Chairman, could be directed to study rather carefully the number of plant closings, the elimination of production facilities over the last 5 or 6 years, because unless we look at that, I think maybe these figures about plant utilization now would tend to be misleading to us.

A couple of witnesses have made that point. We need to quantify that because the process has been ongoing over the last several years.

Chairman GIBBONS. I would agree that lots of plants have been eliminated, if the gentleman would yield, and that some of them were relatively new. But the capacity of the textile industry has increased. It is as high now as it has ever been, the capacity of the whole industry. And so I do know that plants have been closed. I recognize that. I recognize there have been lots of dislocations, but like you I hope we could all operate on the same figures for a change.

As I say, I made some mistakes in the figures last year. I apologized as soon as I found out I had. But the whole debate last year, you know, we talked in terms of 52-percent penetration, and there is just nothing like 52-percent penetration. I do not care whether you measure it in dollars, in yards, or square yard equivalents, or in pounds. There is nothing anywhere near 52-percent penetration in the textile industry. The highest I think we can get is, what was it, in square yard equivalents it got up to 33 percent or something like that.

Mr. FRENZEL. For apparel only.

Chairman GIBBONS. For apparel only. But, you know, we have really got problems with our data base. I am saying, not to you, sir, but to everybody in this audience: If you all have got different figures than the committee has, let us get them on the table and get the data base straightened out right now. Because we cannot carry on an intelligent discussion or debate unless we can all begin to operate from the same set of assumptions or figures.

I intend to challenge everybody who comes in here about their data figures and ask where they get them. So if future witnesses are in the audience or representatives of future witnesses, just be prepared for me to bore in on that subject.

Mr. PRICE. Mr. Chairman, let me just concur in the need for a reliable statistical base, because some of these figures are incontrovertible. You are talking about an import growth rate of 19 percent compared to a long-term domestic market growth of 1 percent, and you are talking about real plants closed and real jobs lost. There is no debate over those figures. There is no debate over those 13 plants in my five counties that I have seen closed over the last 5 years, and there is no debate over those 2,500 people that have lost their jobs.

Chairman GIBBONS. You talk about 13 plants closing. Here is an article stating that 11 plants in 1 year opened in South Carolina, just last year. This is a news article from the Daily News Record. It says 11 new textile and apparel plants came to South Carolina during 1986.

[The article follows:]

DAILY NEWS RECORD

(12/31/86)

DAILY NEWS RECORD, WEDNESDAY, DECEMBER 31, 1986

TEXTILES

11 New Textile and Apparel Plants Came to SC Drawing Boards in '86

GREENVILLE, S.C. — Plans to open 11 new textile and apparel plants in South Carolina were announced in 1986, representing approximately $33 million in new investment and 888 new jobs, according to the South Carolina State Development Board.

Expansions during 1986 by textile companies already operating in South Carolina represented about $176 million and will create 1,154 new jobs. Expansions worth approximately $13.6 million by existing apparel companies will create 753 new jobs, according to board figures.

Some of the new plants on the 1986 list are already in operation while others have only been announced, a board spokesman said. Information on expanded operations are based on an annual survey of all South Carolina manufacturers and on information made public through news releases. The names of survey respondents are confidential, the spokesman said.

New textile and apparel plants announced during 1986 were: H.W. Baker Linen Co., Greeenville, terry cloth bath towels; J&W Industries, Chester, work shirts; New Castle Knitwear Manufacturing Co., Spartanburg, sweaters; American House Spinning Co., Abbeville, yarn; J.P. Stevens & Co., Inc., Olanta, carpet fibers; Duraco Products of South Carolina, Union, macrame hangers; Shannon Manufacturing Co., Allendale, ladies' slacks; Whispering Pines Sportswear, Pageland, men's shirts; Kingstree Knitwear, Kingstree, T-shirts; Bowman, Inc., Orangeburg, men's sportswear, and Westport Home Fashions Ltd., Greer, custom-quilted bedspreads.

Companies making public their plans to expand during 1986 were: Spring City Knitting Co., Gaffney, knitting cloth; Stone Manufacturing Co., Greenville, children's apparel; Union Carbide Corp., Lugoff, finishing fabrics; Springs Industries' Grace Finishing plant, Lancaster, finishing fabrics; AQ Industries, Timmonsville, tricot and warp knit fabrics; Fieldcrest-Cannon, Inc., York, terry cloth towels; JLM, Inc., Chester, blouses; Springs Industries' Riverlawn plant, Fort Lawn, bedspreads; Craig Industries, Lamar, apparel, and Hebron Textiles, Inc., Cades, T-shirts.

—*KATHY VASS*

CM
We're proud of the Red, White and Blue
...and our Grey.

Chairman **Gibbons**. So certainly, yes, I will admit there have been plants closed and plants opened, and I am not going to throw off any of the plants that are closed. But I have been in some of them that have closed that were museums and some that were relatively new. That is America. You know, we do that.

One reason I live in Florida rather than Virginia is because of those kind of dislocations. Maybe Florida is worse off and Virginia is better off that I do not live there any more, but that is what happens in our country all the time.

Mr. **Price**. It is true, of course, that some of these facilities that have closed were old and inefficient, but I think as a generalization that is not true. The textile industry is spending about $1.7 billion a year on new equipment, and today 70 percent of its facilities were newly installed within the last 10 years.

Mr. **Schulze**. Mr. Chairman, if I can add parenthetically, it seems to me——

Chairman **Gibbons**. I yield.

Mr. **Schulze**. Thank you. It seems to me that we saw old American textile-producing equipment which was being utilized in China, that they had bought this equipment, shipped it all the way over there, and were producing efficiently enough to make competitive products. So I agree with you; we need a firm data base, and it is going to be very difficult to acquire.

Mr. **Frenzel**. If I may proceed.

Chairman **Gibbons**. Go ahead. Then we have got Mr. Crane.

Mr. **Frenzel**. The president of the South Carolina Textile Manufacturers said this year that in South Carolina alone domestic companies are building new plants which will create 1,200 new jobs. And although 1,900 jobs were lost in South Carolina last year, the textile industry actually had a net gain of 200 jobs. So I think there is plenty of evidence out there that things are not too bad.

I do want to get back to your statement about not a rollback. The problem is that you use in your bill, David, a 1986 level. And our trading partners are into 1987 with their shipments. Before this bill should be enacted, assuming the normal thing of the legislative process, we will be more than halfway into 1987. So I submit that what you will be calling for are rollbacks under most of our MFA agreements. That means because we have hard agreements with all of those countries, they are going to demand retaliation and compensation. In your testimony, you specifically said that you did not think that would happen, and I wondered if you had any special information that would refute the statements of people like Mr. LeClerc of the EC and others who have publicly threatened on several occasions that retaliation would be following.

Mr. **Price**. No. I am not claiming inside information on such matters. I am saying this, though, very clearly: the bill is consistent with GATT and the bill is consistent with our various bilateral agreements. It offers, I think, assurances on every score that those GATT standards would be met. My testimony lines that out in some detail. Therefore, the basis for retaliation simply would not be there.

Mr. **Frenzel**. Despite the fact that we would have abrogated our MFA bilaterals?

Mr. PRICE. The bill does not require the abrogation of those bilaterals. The continued adherence to those treaties would be compatible with the bill.

Mr. FRENZEL. I see. Then why do we need it? If we do not change those treaties, why do we need a bill?

I would have thought, incidentally, that after the strong efforts of the textile lobby last year to get us to screw down the limits of the MFA bilaterals, that the lobby would have declared victory. But you are telling me now that the new bilaterals do not make any difference.

Mr. PRICE. I am not saying that it makes no difference. I am saying that one way to enforce this legislation, one way to implement this legislation, would be to leave those bilateral agreements intact and then make decisions about limiting other suppliers. But no one is claiming—that I know of—that the existing pattern of bilateral agreements has taken care of the overall problem. The bill is addressing a problem that is much larger than that.

Mr. FRENZEL. Well, I must confess to being confused by that. We do not disrupt any of our bound duties or our existing quotas or our MFA, and yet we are going to reduce imports. That is going to be hard to do, I think.

Mr. PRICE. Well, one of the devices that has been used for bypassing these agreements has been, of course, to import through third countries. That is presumably what——

Mr. FRENZEL. Sure, but that is illegal under the current laws, and nobody would disagree with your plea for better enforcement. We would all like to have that. Nobody condones law-breaking or violation of any treaty.

You also made a statement about currencies and their valuation. My friend, Mr. Crane, reminds me that the Taiwan currency, whatever it is, NTD dollars, has appreciated 13 percent since the Plaza conference. My newspaper tells me that Korea, by the end of this year, will have appreciated its chon by 10 percent. How far do you think those currencies need to change to be of help to the industry?

Mr. PRICE. That is a question over which there is a great deal of debate now, of course, as regards our trade situation in general—to what extent the realigning of currencies will partially solve that problem. The response of those markets has not been as quick as we would have liked to the realignment already, but even if that occurs, even if those adjustments take place, we are talking here about a number of Third World countries whose currencies are pegged to the dollar; therefore, the relative value would not be affected by the realignment of the dollar against the major currencies.

Mr. FRENZEL. Mr. Chairman, I yield my time.

Chairman GIBBONS. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman.

Last year, David, when we had the debate of the Textile Protection Act, we had information that suggested that saving 71,000 jobs in the textile industry would come at the expense of 69,000 jobs in retailing and transportation that would have been negatively affected, certainly, the Rust Belt States and would have affected some of our Western States. And we had higher levels of unemployment than the national average; whereas, every one of the five major textile-producing States were all below the national average of unemployment.

So it struck a lot of us that we were going to have to pay when we were already hurting in employment terms worse than the States that were the major beneficiaries.

In addition to that, the estimates were it would come at a cost to consumers of in the neighborhood of $28 billion over a 2-year time frame. And the reason I bring this up is if you contrast the textile industry with manufacturing as a whole—and, again, we are going back to what the chairman referred to—potentially questionable figures, maybe, depending upon whose sources we accept. But if you, for example, will accept the American Textile Manufacturing Institute as a valid source, they have measured productivity in the textile mill industry and the apparel industry versus manufacturing totally in the United States. The productivity in the textile mill industry has increased 133 percent faster than for all manufacturing between the years 1978 and 1985. This is a dramatic increase in productivity, and it is reflected also in the profit figures that we have and these are from the U.S. Bureau of the Census for 1986 over 1985, a 68 percent increase in profits.

You look at figures like that in retail sales, look at the export figures for textiles, up almost 20 percent, textile exports 1986 over 1985; apparel exports up 11.2 percent 1986 over 1985. Looking at the figures, one cannot help but draw the conclusion that you are doing a whale of a lot better than we are in my home State of Illinois or in the rest of the Great Lake region. And that is before you get to the point that my colleague from Minnesota raised, and that is the potential for retaliation. And the easiest way to retaliate is against agricultural exports. In Illinois, Minnesota, we are big export States in agriculture and depend heavily on that.

It strikes me that, as I say, you are in better condition than we are. How would you respond to that?

Mr. PRICE. Well, we were talking a moment ago about the need for a reliable data base in considering this measure. It seems to me that some of the figures that ought to be subjected to severe scrutiny are those that estimate the numbers of jobs that would be lost by the enactment of a measure like this.

I do not know where those figures come from. I do not know what kind of assumptions they are based on about likely retaliation and so forth. Let me just say a couple of things, though.

The polls in this country have shown time and time again that consumers, the general public, put a very high premium on saving American jobs and saving America's industrial base. I think this is a bill that will be well received and widely received as a measure of basic fairness and one that gives a crucial American industry a fair shake.

As other witnesses said this morning, this is not a bill that comes out of a narrow regional base. The bill has over 200 cosponsors from every section of this country, Members who have adequate reason to reflect on its impact in their constituencies and their districts, wide cosponsorship from people all over the country. Some have predicted dire effects on consumers, dire effects on other industries. It seems to me there is no reason for the kind of retaliation which that presupposes. There is no assurance whatsoever that those dire effects would materialize.

Mr. **Crane**. Except the agricultural sector is particularly vulnerable today because the world is awash in food. Frankly, I was in Taiwan during the Easter recess, and the fact of the matter is it would be infinitely less expensive for them to import food from Australia, say, than from us.

They view their relationship with us as special, and they bend over backwards to import to try and address trade imbalances with the United States, just as they prohibit Japanese cars from coming into Taiwan. They just contracted, in violation of GATT, actually, with the United States firms to build a subway system in Taipei, and they are paying more for that than they would have paid if they had contracted with the Japanese to do it.

They have bent over backwards to try and make those adjustments, and it seems to me that we are in a situation where not only with regard to Taiwan, but with the Pacific Basin countries which were the principal targets of the bill last year to not only hurt trading partners who have attempted to make accommodations to problems we have, but at that same time the industry that we have under consideration is making dramatic progress.

If you look at the reductions, for example—and these are U.S. Department of Labor figures—the reduction in unemployment 1985 over 1986 in the textile industry was 27.8 percent; in the apparel industry, 7.4 percent; and for other nonagricultural unemployment, the reduction was only 0.9 of 1 percent.

So as I said, if you are looking at employment figures—again, U.S. Department of Labor—textile industry up in employment 0.7 of 1 percent 1986 over 1985; and in apparel it was down but it was a marginal decrease; and here is where a lot more workers are involved. It went from 1,125,000 to 1,115,000. There was a loss there 1986 over 1985 in the apparel industry of approximately 10,000 jobs. But that is certainly not an indication of a severe dislocation, and I would suggest that the industry, through the modernization process that is going on and is still going on, has already come out of its worse plight and is making remarkable progress to its credit.

I think, for that reason, this is an unseemly time to contemplate more restrictive trade legislation directed toward this particular sector.

Mr. **Price**. You raised two major points. Let me respond briefly.

I think the assumption that this playing field is level and we are contemplating action that would unilaterally change the rules of the game, I think that is an unrealistic assumption, as earlier witnesses testified today. We are dealing in an area where markets have been closed to our products and where we have borne the brunt of these Third World imports because they could not find market outlets elsewhere. We are dealing with a situation where governments have actively subsidized and promoted exports. We are talking about a situation where the field is anything but level and where we are not by any means talking about doing something unique or unprecedented in terms of this legislation.

In fact, what we are talking about in this legislation is quite moderate and quite mild. It provides no basis whatsoever for retaliation. It is compatible with the enforcement of the Multi-Fiber

Agreements. It is compatible with GATT. The legislation has been carefully drafted to take those objections into account.

Finally, let me just plead with the committee not to punish the industry for its successes. It seems to me there is something very ironic in all this mention of the industry's successes as though that somehow reflects badly on the industry and make its interests less worthy.

On the contrary, this is an industry that has made great strides, has modernized, has invested, has done all the things that economists and others have said it should do. What we are talking about in this legislation is a moderate provision for orderly market growth, creating an environment where that continued progress can occur. This is not special pleading. This is not bailing anyone else out. This is simply creating an environment where the industry can continue the progress it has made. That is what we are talking about. I think it is a very timely request and very important for us to move on it as quickly as possible.

Mr. **Crane**. Can you think of any industry in the United States that enjoys greater protection than textiles right now?

Mr. **Price**. On paper, you might be right. I think in reality the situation has been very, very different. I cannot think of any industry in the United States that has been subject to greater pressures, to greater dislocations than textiles. That is why we are here today.

Mr. **Crane**. I think probably some people in steel might take issue with you on that. I appreciate your testimony, David. I think, as I said, that the industry really was belated in leaving the 19th century and that what we are seeing is a capability through that investment in modernization, and it is reflected in productivity figures. That, in turn, is reflected in earnings.

I think that we are seeing an industry that is going through a transition that does not really have that much to fear in the form of competition from abroad on the one hand. And when you talk about illegal trading practices, as I mentioned, gentlemen, when we had the debate on the floor, the European Community just updated their list of U.S. unfair trading practices. We do not come into that debate with clean skirts at all. In fact, on the question of that horrendous thing, dumping, we are still the biggest dumpers in the world. The United States is ahead of the Japanese quite substantially when it comes to dumping in world markets.

Mr. **Schulze**. Would the gentleman yield on that point?

Mr. **Crane**. Yes.

Mr. **Schulze**. I have got to say, Phil, did you read that EC report thoroughly? I did and, quite frankly, I burst out laughing. I thought it was a blatant attempt to counter the report that was issued here, and I thought it was rather a weak and humorous attempt to try to balance that.

I think a close reading of it will just say that it is really stretching a point to try to make something of it. It is not a good argument.

Mr. **Crane**. I would not agree with that conclusion, especially when you look at what we have done to sugar exporters trying to find markets here in the United States. In the last five years, we have cut off 80 percent of their markets here in the United States.

If that is not a blatant form of protectionism, I do not know what is.

But my point is, while other countries may engage in abusive trading practices like that to a worse extent than we do, the fact of the matter is, you know, when we have our own house in order, then I think we can start pointing accusing fingers with greater moral authority than we can at the present time.

Meanwhile, you see an industry like textiles that is making the rapid progress and rapid strides. This is reflected in every figure that I have before me, and the authorities are the U.S. Department of Labor, the U.S. Bureau of the Census, and the International Business and Economic Research Corp. If you accept the legitimacy of the Federal Reserve, if you accept the dependability of the Department of Commerce, how can you draw such totally contrary conclusions as to the state of the textile industry.

I will not keep you any longer, David. I would only say that if it had been Guy Vander Jagt that called for the lights out instead of Schulze, I would have thought he was targeting your district on the eve of your testimony.

Chairman GIBBONS. You have been very helpful, sir, and you have handled yourself with great distinction. I can see why the people of North Carolina place so much faith in your service.

Mr. PRICE. Thank you, Mr. Chairman. I appreciate the chance to appear and to explore these matters.

Chairman GIBBONS. Thank you.

Let me make some administrative announcements here. The full committee has notified us that they expect to preempt this room at 3 o'clock this afternoon for further consideration of a very important piece of legislation. That means that the subcommittee is going to have to work through lunch and make a few short pit stops along the way, I guess.

Everybody has to be prepared for that. Mr. Bruce Smart is tied up down in the White House, and so the next panel we are going to have consists of Brian Boyle, who is the commissioner of public lands in the State of Washington, and president of Western States Land Commissioners Associations. He is an elected official of the great state. Then the Honorable Carlton Viveiros, who is the mayor of Fall River, who will be introduced by our distinguished colleague, Barney Frank.

Mr. Boyle, would you come forward too? Mr. Frank, we will recognize you first.

STATEMENT OF HON. BARNEY FRANK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. FRANK. Thank you very much, Mr. Chairman. I appreciate the diligence the members are showing. I was very interested in the prior colloquy, particularly when a friend from Illinois said that he thought the textile industry was late getting out of the 19th century, because I have heard a couple people suggest that with regard to him. So I thought that was kind of interesting. [Laughter.]

Mr. CRANE. I have not made it yet, Barney.

Mr. FRANK. But you are getting there.

I am very grateful to the subcommittee for giving me a chance to accompany the mayor of the city of Fall River, Mass. Fall River is a city which was hit very badly by the decline in the textile and particularly the garment industry. Carlton Viveiros was a colleague of mine in the Massachusetts House and has been mayor since 1977 and has done a superb job of trying to overcome the effects of industries leaving. He is both working with the garment and textile industry to preserve and try and defend what we have there and at the same time attract new industry. I think he is particularly well qualified to talk about the negative effects that the flood of imports can have, not just on the people who are immediately involved in the industry, but on a broader community because he is an example of a chief executive who has had to cope with that, who has been as creative as I think it is possible to be in working with the private sector, with organized labor and with public sector programs. He can talk about what the negative effect is.

If I just might add one other word, Mr. Chairman, when you said you have been challenging figures today, that made me feel that I will talk a lot about concepts in this debate. But I did want to say that when I hear people talk about the job loss in the retail industry amounting to the tens of thousands, my skepticism goes pretty high. There will be some job losses in transportation and shipping, but I think the job loss that we hear from our friends in the retail industry are a bit exaggerated. The notion that if we make some of the clothes here instead of overseas people will not be wearing any seems to me a little bit far-fetched. That is the only way I would understand there would be such a drop in the retail industry.

So I do not think that the kind of effect on retail profit margins that we are talking about would have that great an effect. I agree there would obviously be a transportation job loss, but I would, while we are putting in skepticism about figures, nominate the retail industry's figures as a candidate for skepticee of the year.

I am going to have to go off to another meeting. I very much appreciate your accommodating Mayor Viveiros.

Chairman GIBBONS. Mr. Frank, I think all of us will stipulate with you that there has been a job reduction in the garment and the textile industry. I do not think there is any real dispute about that. The real dispute, I think, comes about the profitability of the textile industry and perhaps the profitability of the garment industry—although I am not an expert in that area—and the degree of foreign penetration we have in both of those markets. I do not know whether you were in the room when I said that in the debate last year I made some mistaken statements, and I apologize for them again and I apologized for them as soon as I found out I had made those mistaken statements. But it really sounded like we were discussing two different countries rather than the same industry in the same country.

I only challenge figures because I want us to get on the same data base if we can. Now, there may be something wrong with our data base. You know, maybe the U.S. Government's figures are wrong. I am willing to consider that. I hope we can get the discussion down, though, to some figures that are within a few percentage points of each other.

Mr. FRANK. I think, Mr. Chairman, people respect that. One of the things that I think is clear is your integrity and people's respect for the institution and for your integrity. It is a great asset we have, and I think no one would doubt that you would be trying to make these figures as accurate as possible.

Chairman GIBBONS. I want to say to your mayor you could not have a more effective spokesman, either, than Mr. Frank. He is able to convince a lot of us that our positions should be changed.

Mr. FRENZEL. If the chairman will yield, I will say also that is the most exciting nontestimony we have had today. A chap who is resourceful enough to make an introduction like that deserves points in any league.

Mr. FRANK. I thank my neighbor down the hall for those kind words. Thank you very much, sir.

Chairman GIBBONS. Yes, sir. Go ahead, Mr. Mayor. Then we will go to the commissioner.

STATEMENT OF HON. CARLTON VIVEIROS, MAYOR OF FALL RIVER, MA

Mayor VIVEIROS. Thank you, Mr. Chairman. Thank you, Congressman Barney Frank.

Members of the Subcommittee on Trade, once again my name is Carlton Viveiros, and I am the mayor of the great city of Fall River, Mass., also known as the Spindle City and formerly the textile capital of the world.

I appreciate having this opportunity to address you, and I thank you and, once again, appreciate this opportunity.

This is not the first time I have testified before a congressional committee on apparel and textile trade legislation.

I am proud to say that in 1985 I testified in support of a similar bill. Although it never became law, I believe it was landmark legislation because it helped to wake up America to the realities of international trade.

Since that time, numerous reports have appeared in the media discussing the decline of American manufacturing, the decline in the American standard of living, and the rise of what has been called the "hollow corporation."

The Reagan administration has finally shown signs that it realizes that there is a problem with manufacturing in this country. There is no question the slumbering giant is waking up.

Today I am here to tell the Fall River story, a story of determination, innovation, and perseverance. I will begin by quoting some numbers. I do not know how factual they are because it all depends whose numbers you are using, but I think mine are fairly accurate.

Thirty-five percent of all private sector employment in Fall River is in apparel and textiles, and 70 percent of all manufacturing employment is in this industry.

In the past several years, we have lost 1,000 apparel jobs, and in the past 20 years Fall River's apparel and textile industry has been reduced by a third.

In the Commonwealth of Massachusetts, apparel and textile employment has been cut in half in the same period. Perhaps even more significant, the average work week in Fall River manufacturing is significantly shorter than the State and national average.

In other words, besides unemployment there is substantial underemployment.

Although many factors cause fluctuations in the life of an industry, it is very clear that the rise of imports has been a significant factor in the decline of apparel and textile manufacturing in Fall River and throughout our Nation. But I would like to get beyond the statistics if I may. I would like to share with you some personal experiences.

You might remember a couple of years ago that there was a nationwide protest against the Coca-Cola Co. because its "all-American" line of clothing was primarily being manufactured in Hong Kong.

As a result of these protests, I led a delegation of Fall River manufacturers and contractors to New York City to meet with the company licensed to coordinate the production of the line of clothing. I also led a delegation to Atlanta to meet with top Coca-Cola officials.

Despite these meetings, despite intensive cost analysis, despite the good-faith cooperation of the Coca-Cola Co., it became very clear that though we could compete in quality, we could not compete in price. The numbers simply did not add up in Fall River's favor. Thus, today Fall River companies are not producing Coca-Cola clothing.

However, something good did come out of this effort, something that I believe is representative of the spirit and ingenuity that exist in the apparel and textile industry. A local manufacturer, seeing that he could not compete in price with Hong Kong, developed a new product and received an independent license from Coca-Cola.

I am pleased to report that that manufacturer, as a result of his creativity, was able to increase the number of jobs at his plant, and the product he developed has been selling very well.

As a postscript to this story, I should add that I recently received a letter from Coca-Cola Co. saying that it will be significantly increasing the domestic production of its clothing line in the near future. I congratulate the company on this decision.

In Fall River, and throughout the country, there are many examples of the apparel and textile industry's ingenuity and commitment to competitiveness. Examples that clearly show that the industry is determined to pull itself up by its boot straps.

Recently, a Fall River textile finishing company, in cooperation with government agencies, educational institutions, and the Amalgamated Clothing and Textile Workers Union, adopted a computerized process to increase productivity. This step involves hundreds of thousands of dollars in investment, and hopefully will help to ensure the company's future and its workers' jobs.

Another example, a local consortium of needle trade interests has developed a program to reengineer companies to increase efficiency and to stabilize employment. The group has also looked into such progressive strategies as cooperative marketing and employee child care.

My final example is a tragic story that has become a symbol of resourcefulness, loyalty and commitment. Last January, hundreds of workers lost their jobs in a major fire at the Kerr Mill complex in Fall River, a catastrophe that received national attention. Despite the awesome destruction, despite the staggering losses, the businesses and their employees were determined to survive.

I was particularly touched by the strong, mutual loyalty and commitment expressed by the workers and management. The workers wanted to continue in the needle trades, and hopefully with the same company. Management wanted to retain the same work force.

Fortunately, with the help of many persons, including Congressman Barney Frank, as well as the public and private sector, and the owners' and workers' determination, a number of companies are already back in production and many of the workers are back on the job.

This is the industry and these are the people who are being adversely impacted by cheap imported products, goods that are often manufactured through slave wages in faraway lands. This is the industry and these are the people who, despite their commitment to increased productivity and competitiveness, have been quickly losing their share of the market. This is the industry and these are the people who deserve the support of the President and the Congress in regards to this legislation.

I hope I have been able to add a human element to the statistics that are often bandied around when discussing trade.

These are people, our people, who are suffering as a result of unfair trade. These are communities, our communities, that are suffering the economic losses.

Once again, I sincerely thank you for this opportunity, and I appreciate you taking me out of turn and allowing me to present my case before you.

Thank you.

Chairman Gibbons. Thank you, Mr. Mayor. We will come back to you as soon as we have heard from the commissioner.

Mr. Commissioner.

STATEMENT OF HON. BRIAN BOYLE, COMMISSIONER OF PUBLIC LANDS, STATE OF WASHINGTON, AND PRESIDENT, WESTERN STATES LAND COMMISSIONERS ASSOCIATION

Mr. Boyle. Mr. Chairman, members of the committee, thank you very much. My name is Brian Boyle. I am the commissioner of public lands in Washington State, and as such am the elected constitutional officer in charge of the administration of State-owned forest lands, agricultural lands, and aquatic resources of the State of Washington.

I am also the president of the Western States Land Commissioners Association, which represents 22 Western States. That association passed a resolution opposed to the predecessor bill of H.R. 1154 at its annual meeting in 1985. I am confident that the association will also go on record this summer in opposition to H.R. 1154 at this year's annual meeting.

As a commissioner of public lands, I am the person who is constitutionally responsible for the management of Washington's public resources for the benefit of public schools, universities, counties and other institutions of the State that receive income from those lands that are held in trust and managed for forestry, agriculture, minerals, and other natural resource issues. Every Western State, in one form or another, has a similar trust mission established in its constitution that links public education with the productivity of its natural resources.

For example, in Washington State, 50 percent of the construction income for K through 12 institutions comes from the natural resources from State lands, and 70 to 80 percent historically of the income for university construction has come from those same State lands.

Washington State, like virtually all of the Western States, depends on healthy export trade relationships for income growth and stability. Increasingly, all the Western States focus on Pacific rim markets for export of agricultural, forest, and animal products because of the natural growth of those markets, because of their proximity to Pacific rim ports, and because of strong reciprocal trade relationships.

Washington State, as a State government, is the largest single marketer of wheat from that State. We constitute about 15 percent of the forest products that are produced in Washington State, public and private, from State lands. Because of this trust relationship that provides income to educational institutions from State-owned forest and agricultural lands, this long-term support of schools and universities in the Western States also depends on the quality of reciprocal trade arrangements and the strength of export trade from the Western States into the Pacific rim.

The relative isolation of the Western States from many of the other markets of the world and the dependency of Western States in this country on natural resource products as a source of their export income, makes the Pacific rim their most natural market.

The Pacific Northwest exported $795 million in agricultural products to Taiwan, Hong Kong, Korea, and Japan in 1985 alone. Washington State alone exported $693 million in logs and lumber exports to Japan, Korea, and China in 1986, which was over 87 percent of the State's total log and lumber exports.

Conversely, the location of a State like Washington makes it the natural entry port for import products that come from those same Pacific rim countries that are the major trading partners for our export products. The Port of Seattle, for example, received about $4 billion in textile and apparel products in the year 1986. The west then, as a region, is heavily dependent, both for imports and for exports, on those relations with Pacific rim trading partners.

Various attempts to assist other regional industries—in this case, textiles—by restricting imports put the Western States at risk by inviting retaliation by our Pacific rim trading partners. Efforts that impose limitations on textile and apparel imports discriminate against the region of this country west of the Mississippi that is most at risk in potentially losing export markets for its agricultural and forest products.

This critical dependency of the Western States and their educational systems that rely on open trade relationships needs examination. The resolution of trade disparities has to be done in a manner that does not sacrifice the health of one region's economy in an effort to protect another region's industry.

Thank you very much, Mr. Chairman. I appreciate the opportunity to be here and testify in front of this committee.

Chairman Gibbons. Mr. Mayor, I never have been to Fall River, and what little I know about the history of it is what I have just picked up through osmosis more than anything else.

You led the industrial revolution, I think, as far as textiles and garments was concerned, and I imagine what happened is that you ran into an obsolescence problem. Is that what happened?

Mayor Viveiros. Yes, Mr. Chairman. As you probably know, certainly in 1950 the decline began, and there has been somewhat of a stability taking place in the textile, but the clothing still is suffering. But the combination of both textiles and Amalgamated and garment workers efforts are being threatened and are being negatively impacted.

Chairman Gibbons. Well, are not most of the problems you are running into, as far as the garment workers are concerned, that they are moving to non-right-to-work States? As I understand it, Massachusetts is a right-to-work State, and you have just got a runaway industry on your hands.

Mayor Viveiros. Well, I do not think it is just that, Mr. Chairman. I think the fact that when we dealt with Coca-Cola, we saw very visibly that it was not the right-to-work States versus the non-right-to-work States. It was a very direct, very visible problem with cheaper work force.

Chairman Gibbons. I can understand that.

Mayor Viveiros. So it was crystal clear to my community and to this Mayor what we were confronting in regards to getting work opportunities for our citizens.

Chairman Gibbons. In the Coca-Cola problem, was it a matter of cheap merchandise, cheaply made, cheaply priced, give-away items that you just could not compete with?

Mayor Viveiros. We just could not compete with the manufacturing of that garment in Hong Kong versus manufacturing not only in Fall River but anywhere in the country. As you will recall, it certainly developed into a major controversy.

Chairman Gibbons. I recall it well.

Mayor Viveiros. Coca-Cola was very sensitive to it.

Chairman Gibbons. They were almost as stupid in that one as they were when they changed their soda. I do not know how they do as well as they do. It is always a mystery to me, except they have a pretty good product; and despite their stumbling, they seem to be able to keep ahead.

Mayor Viveiros. Mr. Chairman, if I just could offer this. Everything we have dealt with over the years that I have been in office as it relates to the garment and textile industry, I do not think anything hit home as clearly as the period of time that we worked with this Coca-Cola issue and visibly saw that, as hard as we tried to compete, it was just an impossibility to do so. We brought all the various entities to bear on this problem to sharpen their pencils, look at avenues, look at options, and there was none to be found.

Chairman GIBBONS. I had better not take any more time. We are under such terrible time constraints today. As I say, the full committee has to meet here at 3 o'clock. We may have to come back at 4:30 for those whom we do not get to in the early part of the day.

Mr. SCHULZE. Mr. Chairman, let me very briefly just follow up on that, Mayor. I am still unclear as to the reason that you were unable to produce them. Was it wages? Was it efficiency of production? Was it type of material? Was it finishing. Was it cutting and stitching. Was it shipping? Was it access to markets? Was it access to product?

I realize you said, "We just could not do it." It would help us a lot if you could tell me why.

Mayor VIVEIROS. Absolutely. It got right down to the source of manufacturing at a cheaper price. The fact is that the manufacturers in Fall River and this country, but I can speak firsthand about Fall River and the fact that they work with the licensed manufacturer, Murjani, out of New York, to work under the direction of Coca-Cola to try and work out some solutions and to try to be responsive to our interests and our aggressive involvement in getting them to respond to us. It came right down to manufacturing at a cheaper price in Hong Kong than we could compete with in Fall River. That was the issue. That was the primary issue: manufacturing of the garment. Not the quality, not the shipping, but the manufacturing.

Mr. SCHULZE. Okay, but we still do not know whether it was because of the procurement of the yard goods at a lower price, whether it was a labor factor. In other words, I understand the term manufacturing, and if you do not have it, that is all right.

Mayor VIVEIROS. No, no. I am pretty sure that I have it. I was in those meetings, and the fact is it was in regards to the actual labor of putting the garment together.

Mr. SCHULZE. Okay.

Mayor VIVEIROS. Putting the garment together. They could put the garment together at a cheaper price for the total garment than we could in Fall River or anywhere else.

Mr. SCHULZE. So it was not necessarily the cost of the yard goods, of the cloth.

Mayor VIVEIROS. Yes, sir.

Mr. SCHULZE. It was the actual labor of producing the garment itself, the stitching and the buttons and that kind of thing.

Mayor VIVEIROS. Well, actually, it was a New York-based license company that would coordinate this and would place the manufacturing of this garment at the cheapest price. That is what the dilemma is all about.

Mr. SCHULZE. Mr. Mayor, are you aware of some of the things that American garment producers are doing in the way of laser cutters and automatic sewing machines and some really forward-looking advanced technology? Were any of those usages of those technologies discussed during this period?

Mayor VIVEIROS. Yes, it was. Unfortunately, they were not in a position at this point to get into some of the state-of-the-art facilities that was needed. First and foremost, we need the revenue to move into that area; but I can say that in the city of Fall River, as I said in my testimony, computerization, taking the preventive measures necessary to maximize efficiency and productivity, is taking place in several of the textile operations in Fall River. More specifically, Duro Manufacturing in combination with the Bay State Skills Affiliate in Massachusetts is working on a program now to retrain 200 workers to provide them with computer skills to be able to detect potential damaged goods and maximize efficiency.

So the state-of-the-art facility is making some inroads into our community and being embraced.

Mr. SCHULZE. This committee used to have a gentleman named Jimmy Burke as a member of the Ways and Means Committee, and he valiantly fought the fight for Massachusetts for many, many years. And let me say he did a great job of representing you, and we miss him. Thank you for your testimony.

Mayor VIVEIROS. Thank you, sir.

Chairman GIBBONS. Mr. Pease.

[No response.]

Chairman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. I would like to thank both gentlemen for their testimony.

Mr. Mayor, your Governor is running for President at least partly on a record of having taken a State which has relatively high labor costs, relatively high taxes, and still been able to create a thriving economy. I assume that is a little easier in Boston than it is in Fall River, but you seem to be coping with difficulties or trying to cope with them in the same way—that is, being able to change, to look to new opportunities and to be creative. Is that the gist of what you are trying to do?

Mayor VIVEIROS. That is correct. The fact is that Fall River has always been traditionally at a higher unemployment rate than the rest of the State. When the State was at 12 or 13 percent, we were 14 and 15 percent. The State is at, say, 5 percent; we are running about 7.5 percent, 8 percent. So traditionally we have been higher primarily because, as I have indicated, 70 percent of the manufacturing jobs are in the garment and textile industry. So with the under-employment and with the seasonal employment, that impacts negatively on our unemployment rate.

Generally speaking, I do not want to just paint a total picture of gloom as far as Fall River is concerned, because we have become more diversified; our unemployment rate is considerably lower than what it has been. We do have a healthy municipal government.

Yes, the State of Massachusetts has a healthy economy, and there are a lot of progressive, positive things happening, but with all that we still have to look at the negatives and the problems that beset communities. That is why I am here this morning.

Mr. FRENZEL. Well, if the rest of the citizens refer to the city the way you do, why, it is and will be a great city.

Commissioner Boyle, I thank you for your testimony. You expect that your association of State officers will be adopting a resolution with respect to H.R. 1154?

Mr. BOYLE. I will certainly be taking that resolution to them again, and I expect they would adopt it as they did previously.

Mr. **Frenzel**. This committee would, of course, be very interested in receiving any communication from the association with respect to this bill. We would find it helpful in our work.

Your point is that not only does the State's economy suffer, but particularly the State's education system because it is based on revenues from products that typically, and even more in the future, need to be sold in the Pacific area.

Mr. **Boyle**. Exactly. And that the retaliation potential against those products and against those States that depend on those products is very high from Pacific rim countries.

It is interesting to listen to the mayor's comments and other comments about the revitalization of some industries, because you can look at the example of lumber industries in the Pacific Northwest which have lost dramatic numbers of employees over the last 6 years, but have increased the actual manufacturing capacity of that industry.

In Washington State, for example, where there has been a loss of 15,000 jobs in the lumber industry, there has been an increase in the manufacturing capacity and an increase in the percentage and the volume of the processed work products that are being exported into the Pacific rim—from about 10 percent in 1980 to about 25 percent now, and actually over 30 percent into Japan.

It is an example, I think, of an industry that has recapitalized itself, modernized itself, forced itself to compete more effectively in world markets than it ever competed before. And I think it is an example that perhaps the textile industry should look at in terms of recapitalizing itself and looking at modernization for competitiveness rather than looking towards protectionism.

Mr. **Frenzel**. When you say your customers are on the Pacific rim, I assume that you go beyond the Japan, Korea, Taiwan, Hong Kong area, and that you are talking about Oceana as well, getting farther into the eastern Asian areas?

Mr. **Boyle**. Exactly. South Asian countries are all interested in wood products, and there are a number of openings in agricultural products. Obviously, Washington apples and wheat are two major examples.

There have been recent inroads into India for wood products, which is a great surprise. China is always an unknown and probably will be for some years to come, but aggressive marketing and competitive manufacturing in the Pacific Northwest has allowed our industry, particularly in forest products, to move into countries that no one would have guessed we would have moved into 5 or 6 years ago—India being one example.

Mr. **Pease**. Would the gentleman yield?

Mr. **Frenzel**. I yield to the gentleman from Ohio.

Mr. **Pease**. I appreciate the gentleman yielding. I would like to see if I cannot get a fight going between you two fine gentlemen.

Mr. Mayor, our other witness is saying that if this bill is passed and saves jobs in your town it is going to lead to retaliation and the loss of jobs in the Pacific Northwest. Is that a price you are willing to pay?

Mayor **Viveiros**. Well, first of all, what I know about the legislation, it certainly provides for the flexibility of dealing with retaliatory measures that might or could be taken. In any event, when we start talking about protectionism, we are not talking about protectionism; we are talking about fair trade. We are talking about competitiveness. We are talking about an industry in this country that has been the foundation and the backbone for so many years. But we are talking about manufacturing in general and a decline of the manufacturing entities throughout this country and the fact that we have to be cognizant of the fact that job opportunities and good job opportunities in many cases, in most cases, are provided through manufacturing and healthy manufacturing entities.

So looking at the Fall River case, I think that that is duplicated in many places throughout this country. Certainly I can attest to what our needs are in Fall River and in southeastern Massachusetts.

Mr. PEASE. You probably do not have many voters in the Pacific Northwest for you, do you?

Mayor VIVEIROS. Well, I would think that, as I under stand it, there are no voters there, but very comfortably, not looking at it in the parochial sense, if I did not feel from what I have read of the legislation that there is an escape hatch there, there is a measure, there is flexibility to deal with those concerns, then I would be very uncomfortable here at this mike. But I am not, sir.

Mr. PEASE. I thank the gentleman for yielding.

Mr. FRENZEL. Mr. Chairman, I thank both of the gentlemen for their testimony.

Chairman GIBBONS. Mr. Guarini.

Mr. GUARINI. I have no questions at this time.

Chairman GIBBONS. We thank both of you gentlemen for coming here and helping us this morning.

Mayor VIVEIROS. Thank you, Mr. Chairman.

Mr. BOYLE. Thank you, Mr. Chairman.

Chairman GIBBONS. All right. We go next to the Fiber, Fabric & Apparel Coalition for Trade: Mr. Gregg, Mr. Roboz, Mr. Sheinkman, Mr. Laidlaw, and Mr. Cline; and the Footwear Industries of America, Mr. Slosberg.

Mr. SCHULZE. Mr. Chairman, if I may, while the panel is assembling, I would like to take the opportunity to welcome a constituent of mine, John Gregg, who is the chairman and chief executive officer of Avtex Fibers in Valley Forge, Pa. Mr. Gregg is active in civic affairs in the community, is a good citizen and is concerned about the future of America, active in industry as well as local civic and philanthropic endeavors. It is a privilege and a pleasure to have him before us.

Chairman GIBBONS. He is the first witness today, too. So, Mr. Gregg, we would be delighted to hear from you.

STATEMENT OF JOHN N. GREGG, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, AVTEX FIBERS, INC., VALLEY FORGE, PA, AND CHAIRMAN, FIBER, FABRIC & APPAREL COALITION FOR TRADE

Mr. GREGG. Thank you, sir.

For the sake of time, I would like to submit my statement for the record.

Chairman GIBBONS. The entire statement, yours and all others, will be received in the record.

Mr. GREGG. Thank you, sir.

I would like to make just a couple of comments. We have an unusual coalition. We have a coalition that starts with cotton growers, wool growers, and manmade fiber producers, and extends to textile manufacturers, apparel manufacturers and the shoe industry. Together we represent more than 2 million working Americans in this industry.

We have with us today key representatives of our coalition who will be available to answer very specific questions about the industry. In addition, Mr. Chairman, I would like to volunteer that our FFACT group work with your subcommittee staff to explain the statistics that we are using. We share your concern and think it is very important.

Chairman GIBBONS. I appreciate that, and I was going to ask you to do that because, while we need a good discussion and good debate, we need to talk to each other a little better than we did in the last couple of years. Because as I said before, sometimes I thought we were talking about an entirely different subject. If our figures are not right, we want to know.

Mr. GREGG. Well, Mr. Chairman, we feel the same way, and we will be happy to sit down with whoever you designate and make sure that they understand the basis for it; if there is a discrepancy on our part, we want to clear it up.

Chairman GIBBONS. Well, Ms. Nuzum, who sits right behind me here, is our chief fact gatherer, and you are welcome in the office at any time, by phone or in person, to sit down and work with her on the figures. We want to get us all on the same data base at least.

Mr. GREGG. Well, we will be happy to do that, and Mr. Carlos Moore from our group will be in touch with her to arrange a meeting.

Chairman GIBBONS. Thank you very much.

Mr. GREGG. I would like to start off this morning, sir, by introducing Tom Roboz, who is a representative of our apparel manufacturers group. Each of our panel would like to make some brief comments about the various segments of our industry and answer any questions that you might have.

Chairman GIBBONS. Fine.

[The statement of Mr. Gregg follows:]

TESTIMONY OF JOHN N. GREGG, CHAIRMAN
FIBER, FABRIC & APPAREL COALITION FOR TRADE (FFACT)
CHAIRMAN OF THE BOARD, AVTEX FIBERS, INC.

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS & MEANS,
SUBCOMMITTEE ON TRADE

ON THE

TEXTILE & APPAREL TRADE ACT OF 1987
(H.R. 1154)

MAY 7, 1987

MY NAME IS JOHN GREGG. I AM CHAIRMAN OF THE FIBER, FABRIC & APPAREL COALITION FOR TRADE, CALLED FFACT. AND I AM CHAIRMAN OF THE BOARD OF AVTEX FIBERS, INC., A MANUFACTURER OF SYNTHETIC FIBERS.

FFACT IS A COALITION REPRESENTING NEARLY EVERY SEGMENT OF THE TEXTILE, APPAREL, FIBER AND FOOTWEAR INDUSTRIES. WE ARE COMPRISED OF 12 ASSOCIATIONS AND THE INDUSTRY'S TWO MAJOR UNIONS. COLLECTIVELY, WE SPEAK FOR MORE THAN 30,000 BUSINESSES, FARMS, RANCHES AND NEARLY TWO MILLION AMERICAN WORKERS.

MR. CHAIRMAN, YOU WILL RECALL THAT LAST YEAR, ON AUGUST 6, OUR INDUSTRY CAME WITHIN A FEW VOTES OF OBTAINING THE IMPORT CONTROL LEGISLATION THAT WE SEEK. SOON AFTER THE FAILED VETO OVERRIDE EFFORT, LEADERS OF THIS COALITION MET TO DETERMINE WHAT WE SHOULD DO.

AN ANALYSIS OF THE SITUATION AND SOME THOROUGH ECONOMIC RESEARCH TOLD US THAT THE IMPORT PROBLEM WOULD NOT GO AWAY, OR EVEN SLOW DOWN. WE BELIEVED THE PROBLEM WOULD WORSEN. AND IMPORT AND TRADE BALANCE STATISTICS OF THE PAST YEAR BEAR THIS OUT.

WE FACED A VERY FUNDAMENTAL DECISION: DO WE SIT BACK AND ALLOW THE INEVITABLE -- THE STEADY EROSION OF OUR COMPANIES, COTTON FARMS, SHEEP RANCHES AND WORK FORCES? OR DO WE CHOOSE TO SURVIVE? AFTER WEIGHING THE RISKS AND COSTS -- AS BUSINESS PEOPLE, AS RANCHERS, AS FARMERS AND AS LEADERS OF HUNDREDS OF THOUSANDS OF WORKERS -- WE CONCLUDED THAT WE VERY MUCH WANTED TO SURVIVE. WHILE WE REALIZED THAT A MORE EFFECTIVE TEXTILE IMPORT PROGRAM WASN'T THE ONLY THING WE NEEDED, WE ALSO WERE -- AND ARE -- CONVINCED THAT WITHOUT IT, OUR INDUSTRY WILL BE DESTROYED.

THERE ARE, OF COURSE, TWO CONDUITS OF THAT GOVERNMENT ASSISTANCE: THE ADMINISTRATION AND CONGRESS. IMMEDIATELY FOLLOWING THE NOVEMBER 5TH ELECTIONS, WE MET WITH A HIGH-RANKING ADMINISTRATION OFFICIAL AND ASKED HIM WHAT WE COULD EXPECT FROM THE ADMINISTRATION IN TERMS OF TIGHTER AND MORE STRONGLY ENFORCED CONTROLS. WE WERE TOLD THAT WE COULD EXPECT NO MORE THAN IS CURRENTLY BEING DONE.. WE THEN PRESENTED AN ECONOMIC PROJECTION OF THE VERY BEST PERFORMANCE THAT COULD BE EXPECTED FROM THE CURRENT QUOTA SYSTEM; A PERFORMANCE THAT WOULD RUIN THIS INDUSTRY WITHIN FIVE TO SEVEN YEARS.

THE ADMINISTRATION OFFICIAL DID NOT DISPUTE OUR STATISTICS. IN FACT, A NEWLY-RELEASED STUDY BY THE OFFICE OF TECHNOLOGY ASSESSMENT TELLS THE STORY BETTER THAN WE CAN. I QUOTE: "THE UNITED STATES IS ONE OF THE FEW NATIONS THAT HAS LEFT ITS MARKETS LARGELY OPEN TO FOREIGN SALES OF TEXTILES AND APPAREL. . . AS A RESULT, IMPORTS HAVE FLOODED DOMESTIC MARKETS. UNLESS POLICY ACTION IS TAKEN IN THE NEXT FEW YEARS, THERE IS REASON TO BE CONCERNED ABOUT THE VERY EXISTENCE OF MANY PARTS OF THIS INDUSTRY. . . IT IS INCREASINGLY UNLIKELY THAT THE INDUSTRY WILL BE ABLE TO MAINTAIN ITS PRESENT POSITION IN THE U.S. ECONOMY WITHOUT ACTION TO COUNTER THE RISING TIDE OF IMPORTS."

MR. CHAIRMAN, I WOULD LIKE TO SUBMIT THIS REPORT FOR THE RECORD.

SO, FACING A DEAD END WITH THE ADMINISTRATION, WE TURNED TO CONGRESS AND SOUGHT FROM ITS LEADERSHIP ADVICE ON HOW TO FASHION AND ENCOURAGE LEGISLATION THAT WOULD DO TWO THINGS: (1) SOLVE OUR IMPORT PROBLEM AND (2) BE ENACTED INTO LAW. H.R. 1154 IS THE RESULT OF THOSE EFFORTS; AND IT CLEARLY ADDRESSES THE OBJECTIONS RAISED BY OPPONENTS TO LAST YEAR'S TEXTILE BILL, H.R. 1562:

- OPPONENTS SAID THE BILL DISCRIMINATED AGAINST CERTAIN COUNTRIES -- SO WE CAME BACK WITH GLOBAL QUOTAS THAT DO NOT DISCRIMINATE.
- OPPONENTS SAID THE PRESIDENT WOULD LACK FLEXIBILITY IN IMPLEMENTING QUOTAS -- SO NOW THE GLOBAL QUOTAS WILL ALLOW THAT FLEXIBILITY.
- OPPONENTS SAID THE BILL VIOLATED GATT -- SO NOW THE BILL IS GATT COMPATIBLE AND IT PROVIDES COMPENSATION BY AUTHORIZING CUTS OF OUR OWN TEXTILE AND APPAREL TARIFFS.
- OPPONENTS SAID THE BILL VIOLATED BI-LATERAL AGREEMENTS -- SO NOW THE BILL PROVIDES THE ADMINISTRATION THE FLEXIBILITY TO KEEP THESE AGREEMENTS, TO TERMINATE THEM, OR TO RENEGOTIATE.
- AND THEY SAID THAT THE ROLLBACKS IN TRADE WOULD PROVOKE RETALIATION AND DRIVE-UP CONSUMER COSTS -- SO IN THIS BILL THERE ARE NO ROLLBACKS AND IT INCLUDES A ONE PERCENT ANNUAL GROWTH -- WHICH IS THE PROJECTED LONG-TERM GROWTH OF THE DOMESTIC MARKET.

MR. CHAIRMAN, THIS COALITION URGES THE PASSAGE OF A BILL THAT IS DESPERATELY NEEDED, AND ONE THAT HAS BEEN CAREFULLY AND RESPONSIBLY CRAFTED.

AS THE OFFICE OF TECHNOLOGY AND ASSESSMENT REPORT CONCLUDES: "THE IMPACT OF CURRENT LEVELS OF IMPORT PENETRATION ON THE TEXTILE INDUSTRY IN PARTICULAR IS DEVASTATING. IMPORTS MAY ACCOUNT FOR OVER ONE MILLION LOST JOB OPPORTUNITIES, NOT TO SPEAK OF THE ADDITIONAL LOSS THROUGH 'RIPPLE' EFFECTS.

MR. CHAIRMAN, THANK YOU FOR THE OPPORTUNITY TO SPEAK BEFORE THIS COMMITTEE.

STATEMENT OF THOMAS N. ROBOZ, FORMER CHAIRMAN OF AMERICAN APPAREL MANUFACTURERS ASSOCIATION, AND CHAIRMAN AND CHIEF EXECUTIVE OFFICER, STANWOOD CORP., CHARLOTTE, NC, AND PRESIDENT, FIBER, FABRIC & APPAREL COALITION FOR TRADE

Mr. ROBOZ. Thank you, Mr. Chairman. I am Thomas N. Roboz, chairman and chief executive officer of Stanwood Corp., a diversified apparel manufacturer with headquarters in Charlotte, NC. Today I am representing the American Apparel Manufacturers Association, which I have served as chairman and as chairman of its Trade Policy Committee. I am also the president of the Fiber, Fabric & Apparel Coalition for Trade.

The AAMA is the central trade association for American garment makers, representing about two-thirds of the domestic production and with members in virtually every State.

I will summarize my remarks here today, sir, but I hope that my entire statement can be included in the record.

Chairman GIBBONS. Yes, sir, it will be.

Mr. ROBOZ. Mr. Chairman, we commend the committee for holding this hearing today and for your concern about the problems our country is having in the field of international trade. The statistics, by the way, under your rule, I want to say that I am using Department of Commerce and Department of Labor Statistics.

Our industry contributed $21 billion of last year's $170 billion trade deficit. Apparel imports in 1986 totaled 5.8 billion yards, 14 percent higher than the 1985 record. Since 1980, imports have doubled, and they now account for more than half of our market. Since 1973, we have lost 368,000 jobs and 129,000 since 1980, yet we still employ 1.1 million Americans.

We did not lose those jobs because we are inefficient. Consultants' studies show that we are among the most efficient apparel manufacturers in the world. For instance, it takes the average U.S. apparel plant just two-thirds of the time to make a dozen men's slacks as it takes to make the same slacks in Taiwan. We are improving on this efficiency through government, industry and labor cooperation, in automation projects and through improved communications with our suppliers and our customers.

We did not lose those jobs because American consumers are saving money by buying imports. A reliable survey, which is attached to my statement, shows that last year consumers actually paid more for imports than they did for domestic products.

Those jobs were lost because countries, primarily in the Far East, pay their workers as little as 16 cents an hour to compete with American workers making on an average of a little more than $6 an hour. Imports continue to take our market and our jobs because the Multi-Fiber Arrangement—the basis of our restrained program—is just not working. And it is not working because the bilateral agreements have not been comprehensive in product coverage and they have not been comprehensive in country coverage.

It is not working because the United States' restraint program is operated by a bulky, interagency committee that is slow and reluctant to act on rising imports, and because the administration of the program has been woefully inadequate.

That is why AAMA and our colleagues in the Fiber, Fabric & Apparel Coalition for Trade believe that our only solution lies in legislation. Unfortunately, we will not be helped by the generic trade legislation pending before Congress be cause it cannot solve the wage disparity which underlies our problem. We will not be helped by the decline of the dollar because most of our imports come from countries with currencies pegged to the dollar.

We will be helped by the passage of the Textile and Apparel Trade Act of 1987. It will provide the relief so desperately needed without violating international trade rules and without causing hardship for American consumers. H.R. 1154 merely regulates the import growth at the rate of growth of the American market. It says the domestic manufacturers will have the opportunity to share in the growth of their own market. It does not deny importers any of the market share they have gained, and, in fact, it guarantees them more than half our market.

The bill gives the administration total flexibility in operating the program. It can allot the aggregate limits in any fashion it prefers, allowing it to honor the agreements negotiated under the MFA.

Uniquely, the bill provides for duty reductions on textiles and apparel as compensation for the quotas imposed. This bill removes the danger of retaliation against other U.S. products because it is consistent with the General Agreement on Tariffs and Trade. It has no rollbacks. It treats all countries equally. It allows the honoring of prior agreements, and it pays its own international bill by providing compensation to the rest of the world.

Mr. Chairman, we hope this committee and this House will act favorably on H.R. 1154. Without it, the future of our industry and its 1.1 million workers is bleak.

We appreciate the opportunity to be here today, and we will be pleased to answer and respond to any questions.

[The statement of Mr. Roboz follows:]

STATEMENT OF THOMAS N. ROBOZ, ON BEHALF OF THE AMERICAN APPAREL MANUFACTURERS ASSOCIATION

Thank you, Mr. Chairman. I am Thomas N. Roboz, Chairman and Chief Executive Officer of the Stanwood Corporation, a diversified apparel manufacturer with headquarters in Charlotte, North Carolina. I am here today representing the American Apparel Manufacturers Association, which I have served as Chairman and as Chairman of its Trade Policy committee. In addition, I am President of the Fiber, Fabric, Apparel Coalition for Trade.

The American Apparel Manufacturers Association is the central trade association for American producers of garments. Our members manufacture about two-thirds of the apparel produced in the United States, operating in virtually every state in the union and producing the broad range of garments available in the market.

We are here today, Mr. Chairman, in strong support of the Textile and Apparel Trade Act of 1987. Our membership is overwhelmingly in favor of the Act as demonstrated by an outside survey which showed that 83 percent of our members either approve of our trade policy or want it to be even more restrictive.

We commend the Committee for holding this hearing today and for your concern about the problems our country is having in the field of international trade. Our $170 billion trade deficit needs attention and we hope this Committee will take steps to correct it.

The apparel and textile industry contributed $21 billion of that deficit in 1986. Apparel imports in 1986 totaled 5.8 billion yards, the highest year in history and 14 percent higher than in 1985. Since 1980 apparel imports have doubled. By comparison, apparel imports increased 790 million yards or 38 percent in the years between 1973 and 1980. Those 5.8 billion yards imported last year translate into 12 garments for each of 240 million Americans.

The year 1973 was a peak year for our industry. We employed 1 million 483 thousand people. Last year we employed 1 million 115 thousand people. That is a loss of 368 thousand jobs since 1973. Since 1980, 129 thousand Americans have lost their jobs in apparel plants.

Those jobs were not lost because we are a backward or inefficient industry. To the contrary, the U.S. apparel industry is the most productive in the world. For example, in Taiwan it required 6.2 hours to manufacture a dozen pairs of men's slacks, according to industry consultants. The same dozen pairs of slacks can be made in 4.1 hours in the typical American plant, and in 3.4 hours in the best American plants, of which there are many.

We are not sitting complacently on this relatively high level of productivity, but actively seeking ways to improve it. One project which bears great optimism is the Textile Clothing Technology Corporation, a unique cooperation among industry, government and labor in the development of automated sewing and fabric moving equipment. That project has been in the works for five years and we see in the very near future the actual commercialization of some of the equipment.

That is the hardware part of it. We also are working with our customers -- the retailers -- and with our suppliers -- the textile mills to improve communications through computer technology and universal product code marking. These efforts should reduce the time it takes to get our products on the retail shelves and improve on the greatest advantage we have over low-wage imports -- our nearness to our market.

Those 368 thousand jobs were not lost because the American consumer was saving money by buying imported apparel. The consumer actually was paying more for imports than he was paying for Made in U.S.A. products. According to a survey by Market Research Corporation of American (MRCA), the average price paid for a domestically made man's garments was $6.42 in 1986, compared to $6.60 for an import. In women's wear imports also were more expensive, costing $8.31 each, compared to $7.54 for the domestic item. This survey covered a demographically sound sample of Americans and included all types of apparel from socks and underwear to suits. The relatively low price of the average purchase reflects the more frequent purchase of low-cost items such a hosiery and underwear.

This survey, we believe, provides a good example of what happens when imports begin to dominate a market. In 1974, when apparel imports were relatively low, the average domestic garment was 81 cents more expensive than its imported counterpart. Last year, with imports taking more than half the market, the domestic item was 48 cents cheaper.

These jobs were lost because countries, primarily in the Far East, pay their workers as little as 16 cents an hour in the case of China to compete with American workers. And it not as though the U.S. apparel industry is overpaying its workers. Most of the jobs are entry-level positions and they earn slightly more than $6 an hour.

Barry Bluestone of the University of Massachusetts at Boston and Bennett Harrison of MIT recently completed a study of job creation in the 1980s and published their findings in the New York Times.

The two scholars found that 44 percent of the 9.3 million jobs created from 1979 to 1985 were low paying, $7,400 or less. Only 10 percent of new jobs were high paying, $29,600 or more. By contrast, less than one out of five new jobs created between 1963 and 1973 was low paying and nearly half were high paying.

Doctors Bluestone and Harrison point out that "Manufacturing has not added a single new job to the economy since 1979. Virtually all the employment growth has been in services and trade -- industries with twice the proportion of low-wage jobs as the manufacturing sector."

It appears to us that the United States has two alternatives: accept a steadily declining standard of living, or take action to prevent the continued inroads of imports into our manufacturing base. The first is unacceptable to all Americans. The second can be accomplished by a dedicated Congress and Administration.

An arm of Congress, itself, recognizes that steps must be taken to preserve this industry. The Office of Technology Assessment recently published a study titled "The U.S. Textile and Apparel Industry, a Revolution in Progress." It stated that "The United States is one of the few nations that has left its markets largely open to foreign sales of textiles and apparel, and one of the few that has paid little attention to the research needs of its domestic industry. As a result, imports have flooded domestic markets. Unless policy action is taken in the next few years, there is reason to be concerned about the very existence of many parts of the industry."

I cannot speak for other industries, but in the case of apparel and textiles it is an accepted fact around the world that trade will be controlled. More than 50 countries have signed the Multifiber Arrangment which provides the basis for negotiating bilateral textile and apparel quota agreements.

The United States has negotiated 38 bilateral agreements which, in all honesty, probably have somewhat slowed the rate of import growth. The European Economic Community has done much better, limiting import growth to around 7 percent a year and, in fact, rolling back Hong Kong, Korea and Taiwan by 11 percent between 1979 and 1983.

However, as demonstrated by our horrendous import growth, the MFA has not worked well for the United States.

One reason it has not worked is that the bilaterals negotiated have not been comprehensive. For example, in 1981 the United States renegotiated its bilaterals with the three largest suppliers -- Hong Kong, Korea and Taiwan -- to reduce the growth rate provided on specific categories to one percent or less. Yet in 1982, apparel imports from those countries increased five percent and they grew another 14 percent in 1983. This growth came largely in categories not covered by quotas.

Late in 1983, the Administration began bringing these new categories under quota. The result of this action? A shift in production to a group of secondary suppliers. Imports in the following year, 1984, increased 52 percent from India, the Philippines, Indonesia, Singapore, Sri Lanka and Thailand. More recently, imports of apparel from China last year were allowed to grow at 70 percent, reaching a level of 715 million yards.

The MFA does not work for the United States because the U.S. import control program is operated by a bulky interagency committee that is slow and reluctant to act on rising imports, and because the administration of the program has been woefully inadequate.

A recent report by the Congressional Budget Office confirms the fact that the MFA is not working. The report says that throughout the 1970s "the MFA's quotas on textile and apparel products apparently did not substantially reduce the supply of foreign textile products, and therefore did little to aid the domestic industry."

The report goes on to claim that "In the 1980s, despite the more rapid rate of increase in imports, the restraint agreements probably provided more protection." It added, however, that the restraints did not allow domestic producers to increase output or prices. "Rather, the restraints limited the rate at which the industry contracted," it concluded.

Mr. Chairman, it is clear to us at AAMA that the MFA is never going to work adequately. It also is clear to us and our colleagues in the Fiber, Fabric, Apparel Coaltion for Trade that our solution lies in legislation.

It has been suggested that our salvation lay in passage of generic trade legislation pending before Congress. Many of these proposals have merit and we could support them. However, emphasis on education, research and development and opening other markets does not solve our problem. Helpful as those subjects may be, they do not address the fundamental problems created by the difference in wages -- and thus in living standards -- between the United States and the countries which are shipping us apparel.

It also has been suggested that our problem has been solved by the falling dollar. Sadly, this is not the case. The declining dollar may be of some value in our trade with Western Europe. But the overwhelming share of our imports come from less-developed and newly industrialized countries whose currencies rise and fall with the dollar, or in fact have depreciated faster than the dollar. Also, imports from Japan rose 14 percent last year when the dollar was plunging against the yen.

In the last Congress both Houses voted overwhelmingly for the Textile, Apparel Trade Enforcement Act and the House came within eight votes of overriding the President's veto. Many members of this Committee supported that effort and we are greatful to you for that support.

Now Congress has the opportunity to consider the Textile and Apparel Trade Act of 1987. We hope you will support it and that it will be enacted into law.

We at AAMA believe that H.R. 1154 will provide the relief so desperately needed by our industry without violating international trading rules and without causing hardship for American consumers.

H.R. 1154 merely regulates import growth in textiles and apparel at the rate of growth of the American market. It says that, contrary to the experience of the last few years, domestic manufacturers will have the opportunity to share in the growth of their own market, small as that growth may be. It does not deny importers any of the market share they have gained because it does not reduce imports. In truth, the bill would guarantee more than half our market to imports.

The bill says that in 1987 imports of textiles and apparel shall not exceed 101 percent of their 1986 levels on a category-by-category basis. Future yearly growth would continue at one percent, the long-term growth rate of the American market.

The bill gives the Administration total flexibility in operating the program. The Administration can divide up the aggregate limits in any fashion it prefers. This flexibility would allow the preservation of the Multifiber Arrangement since the agreements negotiated under it could be honored.

A unique feature of H.R. 1154 is the provision for the Administration to negotiate duty reductions of as much as 10 percent on textiles and apparel. These reductions would be in the form of compensation to exporting countries for the new quotas imposed. This compensation would fulfill GATT requirements.

Other provisions of the bill are compatible with GATT. GATT frowns on rollbacks in trade and this bill provides no rollback. GATT requires that quotas be global and single out no countries. This bill is truly global in scope.

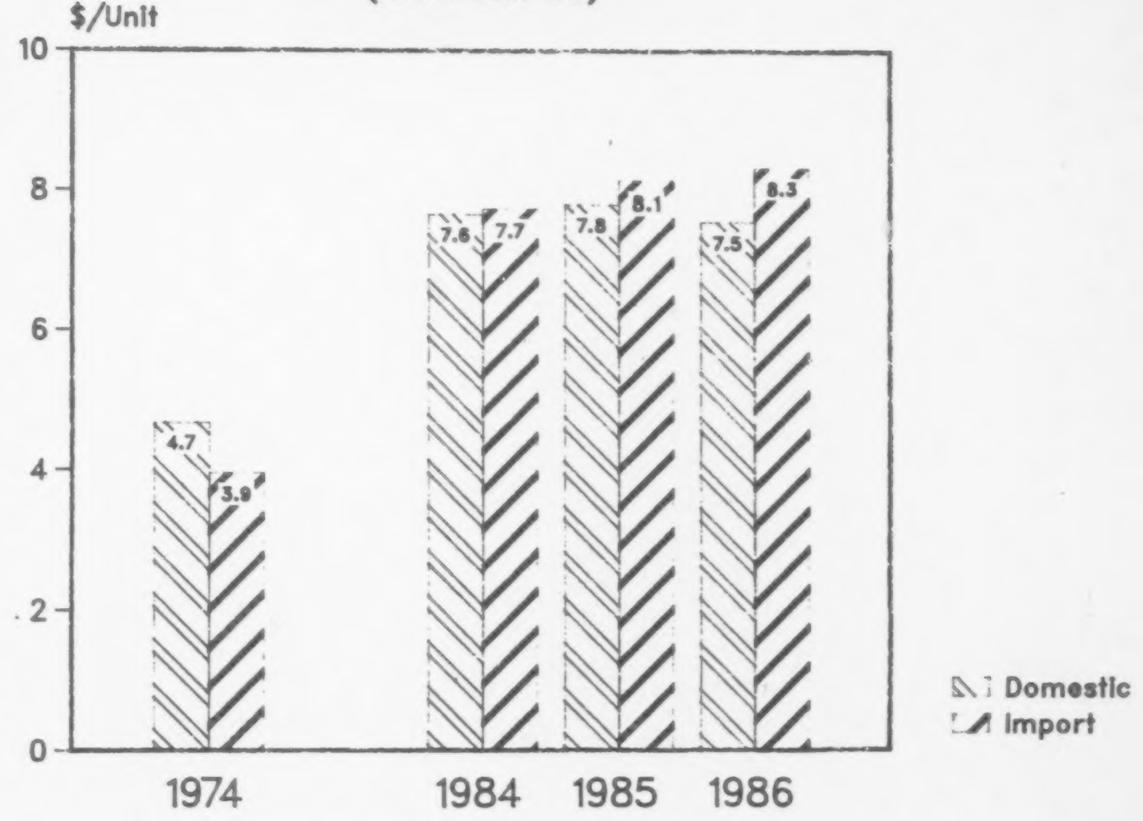
Finally, it was claimed that passage of the textile/apparel bill considered by the last Congress would result in retaliation against other American products, particularly agricultural products. We submit that this new bill removes that danger. It has no rollbacks. It treats all countries equally. It allows the honoring of prior agreements. And it pays its own international bill by providing compensation to the rest of the world.

Mr. Chairman, we hope this Committee will act favorably on H.R. 1154. Without it, the future of our industry and its 1.1 million workers is bleak. Without it, apparel production surely will continue to move offshore and our market will be turned over to others.

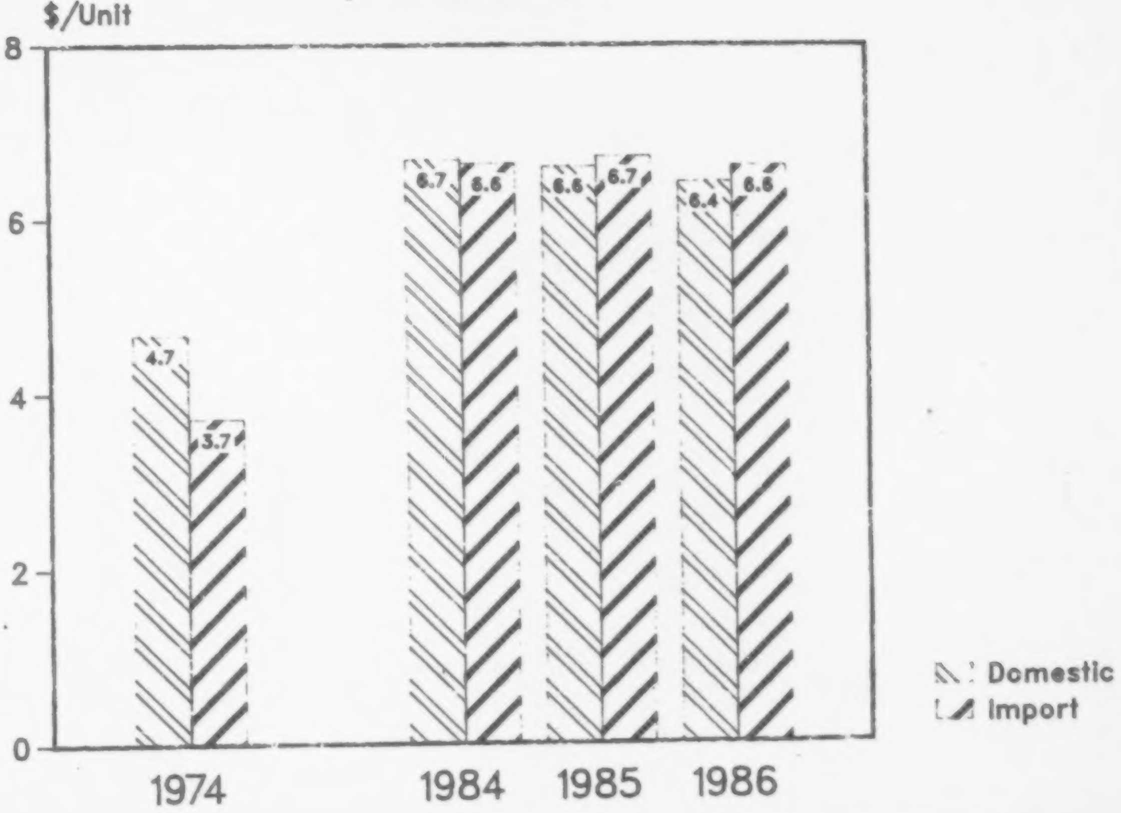
We appreciate the opportunity to be here today and would be pleased to respond to any questions you may have.

5/1/87

AVERAGE RETAIL PRICE DOMESTIC VS IMPORT
WOMEN & GIRLS GARMENTS
(At Domestic Mix)



AVERAGE RETAIL PRICE DOMESTIC VS IMPORT
MEN & BOYS GARMENTS
(At Domestic Mix)



cm1retail

Women & Girls

Apparel Domestic: Share of Key Categories

	1984			1985			1986		
	MM Units	Avg. Price	Share	MM Units	Avg. Price	Share	MM Units	Avg. Price	Share
Coats	34.0	$53.84	0.7%	29.8	$55.18	0.6%	28.9	$57.10	0.5%
Suits/Blazers	62.5	41.01	1.2	55.3	39.05	1.1	58.6	37.79	1.1
Dresses	245.2	24.28	4.7	235.1	24.27	4.7	224.8	26.25	4.2
Skirts	144.5	16.09	2.8	136.6	18.51	2.7	164.3	17.86	3.1
Shorts	104.7	7.18	2.0	109.8	7.00	2.2	115.9	6.79	2.2
Slacks	268.8	12.64	5.2	249.7	13.24	2.5	285.3	12.30	5.4
Jeans	134.8	15.49	2.6	126.8	15.78	5.4	117.9	15.93	2.2
Blouses & Shirts	701.6	9.97	13.6	655.6	10.50	13.2	665.0	10.35	12.5
Sweaters	172.8	14.24	3.3	191.5	14.25	3.8	202.4	14.23	3.8
Underwear	820.4	3.72	15.9	754.8	3.78	15.2	783.0	3.66	14.7
Nightwear	240.7	10.18	4.7	226.2	10.27	4.5	222.7	10.33	4.2
Hosiery	1909.5	1.47	36.9	1835.3	1.44	36.9	2044.7	1.39	38.5
Other	330.9	8.64	6.4	352.4	7.31	7.1	395.7	6.96	7.5
Totals	5170.4	$7.65	100.0%	4979.1	$7.79	100.0%	5309.2	$7.54	100.0%

Source MRCA consumer Diary Panel

*Current Dollars

Women & Girls

Apparel Imports: Share of Key Categories

	1984			1985			1986		
	MM Units	Avg. Price	Share	MM Units	Avg. Price	Share	MM Units	Avg. Price	Share
Coats	40.7	$31.48	3.9%	39.5	$31.71	3.4%	42.7	$30.81	2.9%
Suits/Blazers	21.1	33.08	2.0	18.4	35.52	1.6	23.6	35.64	1.6
Dresses	43.0	24.45	4.1	40.2	25.85	3.4	55.1	28.94	3.8
Skirts	24.7	16.57	2.3	29.2	19.32	2.5	46.8	20.89	3.2
Shorts	40.4	7.76	3.8	44.2	8.23	3.8	69.0	7.80	4.7
Slacks	57.0	14.08	5.4	62.9	14.90	5.4	72.2	15.60	4.9
Jeans	45.7	14.43	4.3	41.4	14.71	3.5	50.9	15.29	3.5
Blouses & Shirts	337.3	9.93	32.1	341.5	10.68	29.1	435.6	11.25	29.8
Sweaters	174.9	16.91	16.7	222.9	16.97	19.0	266.2	17.19	18.2
Underwear	132.9	3.93	12.7	154.8	3.86	13.2	185.7	4.15	12.7
Nightwear	27.2	10.74	2.6	36.9	10.73	3.1	39.8	10.98	2.7
Hosiery	28.9	1.45	2.8	47.8	1.43	4.1	52.4	1.53	3.6
Other	76.6	10.15	7.3	92.0	11.11	7.9	122.2	11.03	8.4
Totals	1050.4	$12.53	100.%	1171.1	$12.75	100.0%	1462.2	$13.19	100.0%
Adj. to Domestic Mix		$7.72			$8.13			$8.31	

Source MRCA consumer Diary Panel

*Current Dollars

Men & Boys

Apparel Domestic: Share of Key Categories

	1984			1985			1986		
	MM Units	Avg. Price	Share	MM Units	Avg. Price	Share	MM Units	Avg. Price	Share
Coats	46.6	$35.61	1.4%	43.0	$34.58	1.3%	37.1	$35.4	1.1%
Suits/Sportcoat	34.8	89.82	1.0	33.1	89.91	1.0	30.3	87.76	0.9
Slacks/Jeans	389.2	13.40	11.6	372.0	14.79	11.2	374.7	13.72	11.0
Shorts	87.9	6.58	2.6	89.7	6.90	2.7	109.0	6.82	3.2
Dress Shirts	101.5	12.67	3.0	101.7	12.78	3.1	96.2	13.10	2.8
Knit Sport Shirt	361.0	6.85	10.7	316.1	6.63	9.5	346.3	6.33	10.2
Woven Sport Shirt	86.8	10.72	2.6	85.7	11.42	2.6	95.6	10.91	2.8
Sweaters	71.4	15.18	2.1	68.8	14.99	2.1	67.9	15.68	2.0
Underwear	849.5	1.92	25.2	831.9	1.99	25.1	843.9	1.98	24.9
Nightwear	78.2	8.37	2.3	79.3	8.65	2.4	75.4	7.96	2.2
Hosiery	976.0	1.27	29.0	1000.7	1.28	30.2	1016.6	1.29	30.0
Other	287.6	9.17	8.5	289.8	7.14	8.8	301.2	9.25	8.9
Totals	3370.5	$6.68	100.0%	3311.8	$6.60	100.0%	3394.2	$6.42	100.0%

Source MRCA consumer Diary Panel

*Current Dollars

Men & Boys

Apparel Imports: Share of Key Categories

	1984			1985			1986		
	MM Units	Avg. Price	Share	MM Units	Avg. Price	Share	MM Units	Avg. Price	Share
Coats	51.7	$27.60	7.9%	54.8	$28.19	7.6%	54.6	27.98	6.6%
Suits/Sportcoat	9.8	76.77	1.5	11.2	72.82	1.6	11.7	69.91	1.4
Slacks/Jeans	66.1	12.11	10.1	58.5	11.97	8.1	70.8	12.28	8.6
Shorts	26.1	7.54	4.0	29.9	8.66	4.1	46.4	7.79	5.6
Dress Shirts	83.4	10.99	12.7	97.3	11.32	13.5	97.8	11.06	11.8
Knit Sport Shirt	118.0	9.36	18.0	114.4	9.54	15.8	143.3	9.26	17.4
Woven Sport Shirt	104.4	9.58	16.0	125.1	10.10	17.3	137.3	10.12	16.6
Sweaters	56.9	15.68	8.7	70.3	16.29	9.7	68.3	16.83	8.3
Underwear	19.9	2.11	3.0	17.2	2.42	2.4	33.1	2.28	4.0
Nightwear	15.3	9.73	2.3	19.6	9.98	2.7	24.6	9.45	3.0
Hosiery	18.8	1.35	2.9	21.5	1.47	3.0	24.0	1.40	2.9
Other	84.5	9.58	12.9	102.4	10.06	14.2	113.8	11.20	13.8
Totals	654.9	$12.39	100.0%	722.2	$12.77	100.0%	825.7	12.28	100.0%
Adj. to Domestic Mix		$6.63			$6.71			$6.60	

Source MRCA consumer Diary Panel

*Current Dollars

WOMEN & GIRLS

APPAREL DOMESTIC: Share of Key Categories

	1974			1981			1982			1983			1984			1985		
	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share
Coats	51.2	$30.46	1.2%	44.8	$30.08	0.9%	36.4	$51.17	0.7%	33.6	$56.18	0.7%	36.0	$53.84	0.7%	29.8	$55.18	0.6%
Suits/Blazers	91.3	22.15	2.1%	56.6	36.92	1.1%	63.7	36.91	1.3%	66.4	42.30	1.3%	62.5	41.01	1.2	55.3	39.05	1.1
Dresses	246.9	17.12	5.6%	257.0	33.00	5.0%	238.6	33.00	4.7%	244.3	26.23	4.7%	243.2	24.28	4.7	235.1	26.27	4.7
Skirts	68.9	9.14	1.6%	247.2	16.23	4.8%	139.9	16.68	2.8%	145.0	16.16	2.8%	144.5	16.09	2.8	136.6	18.51	2.7
Shorts	43.4	3.87	1.0%	64.5	6.01	1.3%	92.1	6.60	1.8%	97.1	6.90	1.9%	104.7	7.18	2.0	109.8	7.00	2.2
Slacks	190.4	8.75	4.4%	194.0	12.82	3.8%	256.3	12.65	5.1%	251.5	13.15	4.9%	268.0	12.64	5.2	269.7	13.26	5.4
Jeans	92.9	7.34	2.1%	201.0	14.48	3.9%	151.2	15.00	3.0%	142.0	15.69	2.8%	136.8	15.49	2.6	126.8	15.78	2.5
Blouses/Shirts	475.5	6.44	10.9%	736.0	10.07	14.4%	758.1	10.23	15.0%	746.3	10.36	14.5%	701.6	9.97	13.6	655.6	10.50	13.2
Sweaters	87.9	8.10	2.0%	162.5	13.27	3.2%	131.2	13.27	2.6%	149.7	13.74	2.9%	172.0	14.26	3.3	191.5	14.25	3.8
Underwear	1015.9	2.06	23.2%	845.6	3.43	16.6%	788.3	3.62	15.6%	800.5	3.62	15.6%	820.4	3.72	15.9	756.8	3.78	15.2
Nightwear	214.6	6.13	4.9%	237.1	9.97	4.6%	228.1	9.71	4.5%	245.2	10.27	4.8%	240.7	10.18	4.7	226.2	10.27	4.5
Hosiery	1649.0	0.93	37.7%	1877.5	1.29	36.7%	1865.4	1.37	37.0%	1900.6	1.43	37.0%	1909.5	1.47	36.9	1835.3	1.64	36.9
Other	144.6	5.26	3.3%	186.7	7.62	3.7%	295.9	7.96	5.9%	314.3	8.43	6.1%	330.9	8.66	6.4	352.6	7.31	7.1
Totals	4376.4	$ 4.67	100.0%	5109.1	$ 7.50	100.0%	5050.2	$ 7.66	100.0%	5136.5	$ 7.72	100.0%	5170.4	$ 7.65	100.0%	4979.1	$ 7.79	100.0%

Source: MRCA

*Current Dollars

WOMEN & GIRLS

APPAREL IMPORTS: Share of Key Categories

	1976			1981			1982			1983			1984			1985		
	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Ave.Price*	Share
Coats	12.8	$19.95	3.4%	23.8	$32.76	3.8%	33.5	$33.16	4.1%	39.3	$34.10	4.2%	40.7	$31.48	3.9%	39.5	$31.71	3.4%
Suits/Blazers	6.3	21.43	1.7%	11.3	35.01	1.8%	16.9	32.79	2.1%	17.6	36.07	1.9%	21.1	33.08	2.0	18.4	35.52	1.6
Dresses	9.9	17.51	2.6%	19.5	24.49	3.1%	26.6	18.71	3.3%	36.9	23.03	3.9%	43.0	26.45	4.1	40.2	25.05	3.4
Skirts	2.5	9.44	0.7%	18.9	16.12	3.0%	16.1	15.57	2.0%	19.5	16.17	2.1%	24.7	16.57	2.3	29.2	19.32	2.5
Shorts	12.6	2.34	3.4%	13.3	5.99	2.1%	30.6	6.23	3.8%	37.0	7.16	4.0%	40.4	7.76	3.8	44.2	8.23	3.8
Slacks	20.1	6.12	5.4%	18.9	14.77	3.0%	35.9	13.91	4.4%	45.4	13.47	4.9%	57.0	16.08	5.4	62.9	14.90	5.4
Jeans	11.6	5.47	3.1%	43.4	15.13	6.9%	38.6	16.06	4.8%	43.9	14.50	4.7%	45.7	16.43	4.3	41.4	14.71	3.5
Blouses/Shirts	124.8	4.62	33.3%	215.2	9.08	34.4%	293.9	8.67	36.2%	322.7	9.63	34.5%	337.3	9.93	32.1	341.5	10.60	29.1
Sweaters	61.4	7.73	16.4%	121.6	14.69	19.4%	137.6	14.12	16.9%	157.9	14.61	16.9%	174.9	16.91	16.7	222.9	16.97	19.0
Underwear	41.2	1.57	11.0%	80.5	3.63	12.9%	96.0	3.65	11.8%	114.6	3.74	12.2%	132.9	3.93	12.7	154.8	3.06	13.2
Nightwear	8.1	6.78	2.2%	18.0	7.87	2.9%	23.9	8.76	2.9%	24.2	9.11	2.6%	27.2	10.74	2.6	36.9	10.73	3.1
Hosiery	36.6	0.88	9.8%	18.4	1.28	2.9%	15.3	1.51	1.9%	20.0	1.52	2.1%	28.9	1.45	2.8	47.8	1.43	4.1
Other	26.7	3.70	7.0%	23.3	7.42	3.8%	47.5	8.09	5.8%	56.2	9.60	6.0%	76.6	10.15	7.3	92.0	11.11	7.9
Totals	374.6	$ 5.62	100.0%	626.1	$11.74	100.0%	812.4	$11.25	100.0%	935.2	$12.07	100.0%	1050.4	$12.53	100.0%	1171.7	$12.75	100.0%
Adj. to Domestic Mix		$ 3.94			$ 7.40			$ 6.93			$ 7.43			$ 7.72			$ 8.13	

Source MRCA Consumer Diary Panel

*Current Dollars

MEN & BOYS

APPAREL DOMESTIC: Share of Key Categories

	1974			1981			1982			1983			1984			1985		
	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share
Coats	96.7	$17.28	3.1%	39.0	$32.69	1.3%	43.9	$35.96	1.3%	45.2	$34.00	1.3%	46.6	$35.61	1.4%	43.0	$34.58	1.3%
Suits/Sportcoats	51.9	52.06	1.7%	36.3	86.88	1.2%	35.8	85.61	1.0%	37.0	89.92	1.1%	34.8	89.02	1.0	33.1	89.91	1.0
Slacks/Jeans	563.5	7.84	18.1%	462.4	13.40	15.8%	445.4	13.76	13.0%	391.9	13.51	11.6%	389.2	13.40	11.6	372.0	14.79	11.2
Shorts	16.4	3.90	0.5%	28.0	6.06	0.9%	83.8	5.98	2.4%	85.1	6.90	2.5%	87.9	6.58	2.6	89.7	6.90	2.7
Dress Shirts	190.7	6.30	6.1%	116.2	10.73	4.0%	105.3	11.58	3.1%	105.9	12.33	3.2%	101.5	12.67	3.0	101.7	12.78	3.1
Knit Sport Shirts	248.1	4.06	8.0%	288.5	6.53	9.8%	391.8	6.34	11.4%	364.0	6.61	10.8%	361.0	6.85	10.7	316.1	6.63	9.5
Woven Sport Shirts	130.5	5.31	4.2%	93.4	9.91	3.2%	110.7	10.34	3.2%	97.3	10.54	2.9%	86.8	10.72	2.6	85.7	11.42	2.6
Sweaters	43.6	10.53	1.4%	70.6	14.19	2.4%	67.9	15.45	2.0%	67.9	15.75	2.0%	71.4	15.18	2.1	68.0	14.99	2.1
Underwear	778.0	1.19	25.0%	674.5	1.81	23.0%	805.4	1.85	23.5%	831.7	1.90	24.7%	849.5	1.92	25.2	831.9	1.99	25.1
Nightwear	69.5	3.67	2.2%	49.7	9.20	1.7%	84.2	8.10	2.5%	78.6	8.39	2.3%	78.1	8.37	2.3	79.3	0.65	2.4
Hosiery	833.0	0.81	26.7%	[illegible]	1.19	30.1%	962.5	1.24	28.0%	983.2	1.20	29.2%	976.8	1.27	29.0	1000.7	1.20	30.2
Other	95.5	3.65	3.0%	192.0	3.08	6.6%	295.7	8.75	8.6%	283.2	9.44	8.4%	287.6	9.17	8.5	289.0	7.16	8.8
Totals	3115.6	$ 4.67	100.0%	2932.4	$ 6.91	100.0%	3434.6	$ 6.75	100.0%	3371.0	$ 6.75	100.0%	3370.5	$ 6.68	100.0%	3311.0	$6.60	100.0%

Source: MRCA Consumer Diary Panel

*Current Dollars

MEN & BOYS

APPAREL IMPORTS: Share of Key Categories

	1974			1981			1982			1983			1984			1985		
	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg.Price*	Share	MM Units	Avg. Price*	Share
Coats	26.0	$12.05	11.8%	28.8	$23.62	7.2%	39.6	$27.02	7.2%	50.2	$28.30	8.3%	51.7	$27.60	7.9%	54.8	$28.19	7.6%
Suits/Sportcoats	5.8	30.95	2.6%	4.8	87.94	1.2%	7.8	77.50	1.4%	9.3	79.29	1.5%	9.8	76.77	1.5	11.2	72.82	1.6
Slacks/Jeans	24.9	5.25	11.3%	45.9	12.52	11.4%	56.7	11.12	10.3%	58.0	11.37	9.5%	66.1	12.11	10.1	58.5	11.97	8.1
Shorts	2.3	4.04	1.0%	6.6	7.08	1.6%	19.4	7.10	3.5%	23.8	7.30	3.9%	26.1	7.54	4.0	29.9	8.66	4.1
Dress Shirts	48.8	4.28	22.2%	65.0	8.40	16.2%	63.8	9.61	11.6%	75.9	9.06	12.5%	83.4	10.99	12.7	97.3	11.32	13.5
Knit Sport Shirts	22.1	4.42	10.0%	65.7	11.06	16.4%	95.2	8.80	17.2%	107.1	9.44	17.6%	118.0	9.36	18.0	114.4	9.54	15.8
Woven Sport Shirts	41.8	6.33	19.0%	89.5	7.27	22.3%	119.6	7.95	21.7%	112.5	8.53	18.5%	104.4	9.50	16.0	125.1	10.10	17.3
Sweaters	15.6	9.57	7.1%	39.5	14.43	9.8%	44.1	14.63	8.0%	51.0	14.40	8.4%	56.9	15.68	8.7	70.3	16.29	9.7
Underwear	6.2	1.13	2.8%	7.5	2.03	1.9%	9.8	2.21	1.8%	14.3	1.98	2.3%	19.9	2.11	3.0	17.2	2.62	2.4
Nightwear	6.7	4.21	3.0%	12.9	8.22	3.2%	13.8	9.08	2.5%	15.4	8.98	2.5%	15.3	9.73	2.3	19.6	9.98	2.7
Hosiery	8.7	1.05	4.0%	15.6	1.39	3.9%	16.1	1.34	2.9%	17.5	1.40	2.9%	18.8	1.35	2.9	21.5	1.47	3.0
Other	11.2	3.01	5.1%	19.8	5.45	4.9%	65.8	9.50	11.9%	73.6	10.03	12.1%	84.5	9.50	12.9	102.6	10.06	14.2
Totals	220.1	$ 6.37	100.0%	401.5	$11.11	100.0%	551.7	$11.39	100.0%	608.6	$12.12	100.0%	654.9	$12.39	100.0%	722.2	$12.77	100.0%
Adj. to Domestic Mix		$ 3.71			$ 6.73			$ 6.53			$ 6.56			$ 6.63			$ 6.71	

Source: MRCA Consumer Diary Panel

*Current Dollars

3/15

So We Have More Jobs— Low-Paid, Part-Time Ones

By Lance Compa

EVER SINCE the Depression, one statistic has grabbed headlines—the national unemployment rate. It makes and breaks politicians. Television newscasters speak of it in tones of near-religious awe.

But we're being had.

President Reagan boasts that his administration's Great American Job Machine has put 13 million more people to work and will create 20 million more jobs by the end of this century. Today, the highest share of the working-age population in our history is on the job—more than 60 percent. The unemployment rate has dropped from a post-1930s high of 11.4 percent in the 1981-82 recession to 6.7 percent in the figures for December through February.

This all sounds fine, until you look at the reality in back of this cherished statistic.

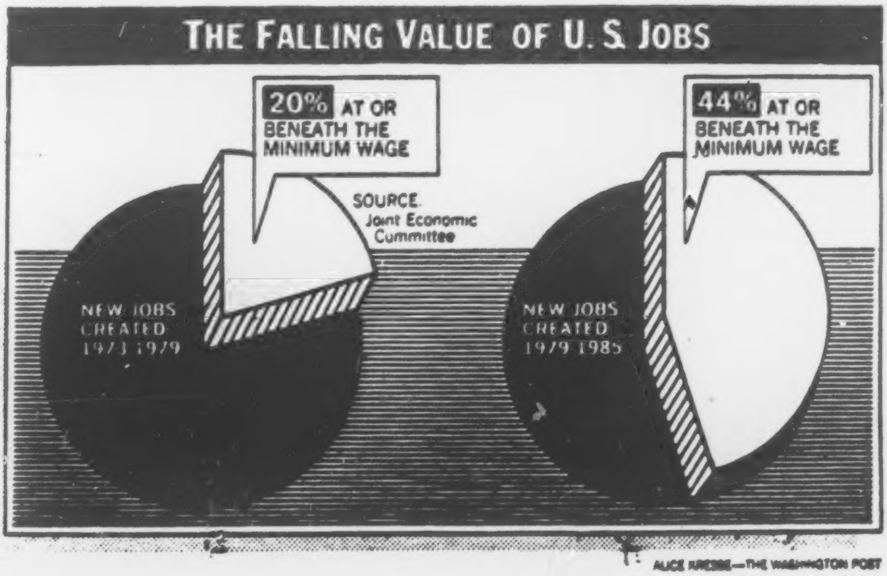
There may be more jobs, but more and more they're low-paying jobs with short hours, small benefits and bleak futures. We've seen the same thing happen to the American job that happened to the American dollar when it was gutted by inflation—there are more of them around, but they bring home a lot less bacon.

Almost a third of the new jobs since 1980 are part-time. Three-fourths have been filled by people wanting full-time work. Six million American part-timers want full-time work and can't find it. Two-thirds of them make the minimum wage, and 85 percent have no health insurance from their employers.

A Joint Economic Committee report by

See UNEMPLOYMENT, C2, Col. 1

Lance Compa is a labor attorney with the United Electrical, Radio and Machine Workers of America.



THE FALLING VALUE OF U. S. JOBS

SOURCE: Joint Economic Cummittee

ALICE KRESGE—THE WASHINGTON POST

So We Have More Jobs

UNEMPLOYMENT, From C1

Barry Bluestone of the University of Massachusetts and Bennett Harrison of M.I.T. compares net new jobs created between 1973 and 1979 to jobs formed between 1979 and 1985. In the first period, 20 percent of the new jobs paid at or near the minimum wage—now just under $7,000 a year. In the second period, however, low-wage jobs appeared at more than twice that rate: 44 percent of new jobs in the Reagan years paid $7,400 a year or less for those working full time.

Well, goes the rebuttal by conservative economists, that just reflects the influx of women and teenagers into the workforce. They prefer service-type work that lets them move in and out of the labor market, and low wages are the reward for inconsistency and inexperience. But women have actually done better than men in the Bluestone-Harrison study; two-thirds of the net new jobs for men between 1979 and 1984 paid $7,400 or less, compared to 31 percent for women.

Granted, there have been complaints about the validity of the unemployment number in the past. Liberals have charged that it ignores people who quit looking for work, while conservatives argued that it misses those who are working "off the books" in cash-only transactions ranging from house-cleaning to illegal drugs.

But the real problem with the unemployment rate is that we've devalued American employment in order to have more of it. While corporate stock prices soar to new highs, the working class is paying for this situation.

Practically every measure of income and relative status—except for the unemployment rate—reflects a sharp decline for the American working class. Studies compiled by the Economic Policy Institute indicate that all the net gain in jobs in the past six years has come in the service sector, where the average pay is below $14,000 a year. The average pay of jobs lost in the manufacturing and construction industries was over $20,000 a year.

Median household income and mean family income are 5 percent below 1980 levels despite the infusion of women and teenagers into the workforce. Only per-capita income levels have risen slightly because husbands and wives who must both work to pay their bills are having fewer children.

In 1985 more American families had incomes below $20,000 or above $50,000 a year than fell in between. It was the first time in decades that the broad "middle"—if we take the $20,000-50,000 standard in constant dollars—became a minority of the population. The minimum wage, stuck at $3.35 an hour for six years, has lost more than 25 percent of its purchasing power since 1980. Probably 20 million workers labor at the minimum wage or in businesses that peg wages to a few cents an hour above the minimum.

Administration spokesmen from the president on down can brag all they want about lowering unemployment. Deregulating business, declaring open season on trade unions by smashing the air traffic controllers union, holding down the minimum wage below poverty levels, the Reagan administration is simply letting employers exploit more workers for greater profits. Obviously, under these conditions, employers are going to make work available. But we don't have to agree that it's a great thing.

In the current anti-labor atmosphere, half the major labor contracts have contained some form of wage cut, freeze or other concession. In 1986, deferred wage increases in collective bargaining agreements—the second and third year raises that really determine if workers will gain, stand still or fall behind—were smaller than the year before for the fifth year in a row. New contracts provided pay hikes averaging 1.2 percent in the first year and 1.8 percent annually over the life of the contract, the lowest increases since such data were first compiled in 1968.

Many strikes have been broken with replacement workers or ended with a threat of strikebreaking, and many more concessions have been forced on workers under the same menace. Despite the Great Job Machine and the supposed availability of work, there are millions of workers earning $10,000 a year who for a 50 percent pay increase will cross a picket line of workers paid $20,000 on strike against a cut to $15,000. Here is the real division in the working class: the fight over smaller pieces of the pie as more workers slide from the presumed "middle" toward the economic bottom.

For decades young American workers could aspire to a good job at a stable company. Where I grew up, it was at Eastman Kodak or Xerox or General Motors' Rochester Products division. Kodak and Xerox never laid off; at other manufacturers, hourly employees could expect a few cyclical layoffs, protected by unemployment insurance, until they could build up enough seniority to stay on the job until retirement. White-collar workers didn't worry about layoffs and could advance to mid-level and upper-management jobs.

Not any more. Kodak has laid off 10,000 workers in Rochester. One of them, a young woman laid off from a $9-an-hour assembly-line job in late 1985, looked for work for nearly a year before she found a part-time, minimum-wage job as a cafeteria cashier at Brockport State college, barely enough to support her five-year-old daughter.

"I think it stinks," she says. "It's like I'm sinking, sinking fast. I keep wondering: am I ever going to be able to make that money again?"

One computer programmer laid off from Xerox in 1982 still works there full time as a temporary employee, paid 20 percent less than he was making before, with no benefits.

About 15 million workers have lost their jobs in the past decade due to plant shutdowns, product-line transfers or other business closings. Most of those were making more than $20,000 a year in durable-goods manufacturing. When they got new jobs, often after a year or two on layoff, they took big pay cuts closer to the $14,000-a-year service pay average. The cuts are collar-blind, too. They do not just affect blue-collar assembly-line workers; they hit white-collar and pink-collar support staff, engineers and designers, sales people and mid-level managers.

Of course there are many opportunities for specialized programmers and systems analysts, but chip-makers and semiconductor manufacturers are moving production operations overseas. General Electric is moving electronics production to Asia and Mexico while it shuts down turbine operations in New York and Massachusetts. AT&T has shifted telephone manufacturing to Singapore and announced the layoff of 30,000 managers and technicians in other business lines. Westinghouse has announced plans to close a busy, profitable large circuit-breaker plant in Bridgeport, Conn., putting hundreds of employees out of work to shift operations to the Dominican Republic.

These are not money-losing, dying companies. They are Fortune 500 giants where steady work for production, white-collar and middle management employees paid $20,000-$40,000 a year. In its place, those workers might collect unemployment compensation, get counseling on how to write a resume and dress for an interview, perhaps get retraining allowances for new jobs that don't exist, then finally find work in the Great American Job Machine for half what they made before. The unemployment rate will never reflect this reality.

Nor will it reflect that workers no longer can have their parents' expectations for a brighter future. In 1950 and in 1960, a 30-year-old man who made what would today equal $18,000 a year would likely double his pay in 10 years. In contrast, a 40-year-old today is where he was 10 years ago, if he's lucky. His family's standard of living might hold up, but only because he's moonlighting, his wife is working and his teenage children are working too.

Of course, this scene reflects an intact family. The difficulties mount for single-parent households and mixed families. At this point, many liberal analysts move on to the plight of women and minorities. There is a danger here, though, of seeing workers divided into a white male aristocracy at odds with minorities and women. However plausible this view may have been (it's hard to conceive of aristocrats on $20,000 a year), the latest Labor Department figures show white males plummeting toward the pay and benefit levels of their women and minority counterparts.

Instead of a secure middle class we have an American working class whose wages are dropping, whose good jobs are disappearing and whose whole families have to work to make ends meet. Much of the vaunted middle class is looking at a future closer to the underclass nightmare than the American dream, but the unemployment figure on the nightly news remains the mark by which we measure the well-being of the people who actually do the work in this country, rather than those who simply devise new ways to profit from their investments.

It sounds odd, talking of a working class in the United States. The phrase evokes pictures of French communist factory hands, not the yeoman farmers of our Jeffersonian tradition or what was, until recently, our oversold image of a middle class autoworker with two cars, a boat and a summer house. But we do have a working class, the vast majority of Americans who make their living on a periodic wage paid by an employer. President Reagan telling them to rejoice because 13 million new jobs have been created on his watch adds insult to injury for the millions of Americans who have lost their jobs and had to take the lousy jobs he's boasting about.

Ridiculing the concern for job quality as "Economics Propaganda 101," economics columnist Robert J. Samuelson calls the notion that the U.S. economy is producing too many dead-end jobs "economic fiction." Acknowledging "pockets of distress" and "individual suffering," Samuelson maintains that "in an economy of 111 million workers, their overall social significance is diluted."

The argument pays scant attention to the fact that today's "good" 6.7 percent unemployment rate is actually higher than the rates we deplored so loudly during the 1958, 1961 and 1971 recessions. With each turn of the business cycle, the peaks and valleys of the unemployment rate move up. Here's how decade-long averages have climbed: in the '50s, unemployment averaged 4.5 percent; in the '60s 4.8 percent; in the '70s 6.2 percent and in the '80s, so far, nearly 8 percent.

Samuelson writes reassuringly that "the average jobless spell is now less than four months." But that is the same length of unemployment that prevailed in the 1975-76 recession with unemployment near 9 percent and only a month shorter than the average time off the job after the 11 percent joblessness of 1982. However, only a third of laid-off workers collect unemployment-insurance compensation today, compared to over 70 percent a decade ago.

Where is it going to end? Perhaps with a U.S. economy more like that of Brazil, with a small group of wealthy capitalists, a sizeable—but minority—sector of professionals and skilled technicians running high-technology businesses and services, and a vast mass of sullen, low-paid production and service employees. In a report to the AFL-CIO's Industrial Union Department, economist Larry Mishel shows that incomes from dividends and interest have been increasing at twice the rate of workers' wages in the past decade.

But perhaps we are headed instead for a settling of accounts. Not Marx's final conflict, but the periodic corrective that comes when American workers decide they have been pushed too far. Every few decades, common Americans get fed up with business dominance and push back, first with political reforms, as in the eras of Populism or the New Deal, then by building trade-union organizations, as with the consolidation of the American Federation of Labor in the 1890s and the mass organizing drives of the CIO in the 1930s.

In 1988 and 1990 and 1992, political aspirants—and union organizers too—can win elections by stressing forthrightly the interests of American workers counterposed against the interest of investment bankers, corporate takeover artists and golden-parachuting boardroom big shots. Indeed, a Democratic presidential candidate who moves boldly to capture working people's disaffection and proposes thoroughgoing reforms could sweep into the White House next year.

Talk of "workers" and "Wall Street" and "economic royalists" may sound hoary to jaded political ears, but these might be the themes that play in Peoria—which, as it happens, is a city where thousands of workers have lost their jobs at Caterpillar and other farm equipment plants since 1980.

To win, a reform Democrat has to debunk claims about the great job-creating machine and go beyond the old arguments about unemployment to press cures for ill-employment. Instead of jobs, jobs, jobs, candidates have to talk about better jobs, for better pay, with brighter futures.

Chairman GIBBONS. I am going to ask you about that figure, half the market, because that is the first major deviation that we have here, so be prepared for that when I come to that, would you, please?

All right. Let us see. Who is next?

Mr. GREGG. Mr. Chairman, we have Jack Sheinkman, who is secretary and treasurer of the Amalgamated Clothing and Textile Workers Union.

Chairman GIBBONS. Yes, sir.

STATEMENT OF JACK SHEINKMAN, SECRETARY-TREASURER, AMALGAMATED CLOTHING & TEXTILE WORKERS UNION, AFL-CIO, AND ON BEHALF OF FIBER, FABRIC & APPAREL COALITION FOR TRADE

Mr. SHEINKMAN. Mr. Chairman, I want to thank you for the opportunity to appear here before this committee. I am sorry that some of our members had to leave who were in here for a legislative session of our own. It gave them an opportunity to see how our system works on the occasion of the 200th anniversary of the Constitution of the United States, which serves as a beacon for the rest of the world.

I would also like to underscore what my colleague, Mr. Roboz, says. I get the shakes and the shingles when I think of the $21 billion deficit in trade out of $170 billion. And I heard one Congressman put a question—I do not recall whether it was Mr. Crane—indicating that there was a slight increase in exports of textiles and apparel to the United States, and the impact of that $21 billion on our entire system of finances, the dollar, and what is happening with interest rates today. I think we are losing sight of the trees from the forest, and likewise the good commissioner from the State of Washington.

Chairman GIBBONS. Now, sir, right there is where we differ on figures. I do not want to take it up now, but I want to come back to that. Let us put a little asterisk right there and come back to that, because I think there is a difference.

Mr. SHEINKMAN. Let me also say where I have some different figures.

Chairman GIBBONS. All right, sir.

Mr. SHEINKMAN. We were talking about the recent agreements negotiated for Taiwan, Hong Kong, and Korea, and I would like to set straight the facts—not on what the agreements were in terms of the figures, but let me read this to you.

The administration gushed with self-congratulations—and I am sure some Members of Congress did, too—on the impact of the MFA and how well it has been operating. Well, as we have pointed out time and time again, imports over the last 6 years into the United States have impacted us to the extent of 17 percent annually over exports in terms of trade deficit.

What has really happened with those three countries since these agreements were negotiated? Hong Kong is up 6 percent; Taiwan is up 7 percent; and Korea is up 10 percent. Put another way, Hong Kong's actual import growth of 6 percent is 1,200 percent greater than the growth rate of 0.15 percent the administration negotiated.

And Taiwan's growth rate of 7 percent is 1,400 percent higher than that negotiated rate. Korea's is 2,000 percent greater.

This has been the story time and time again with each of the bilaterals that have been negotiated.

Furthermore, the administration has never determined the total volume of imports of individual categories that can be allowed to enter the U.S. before market destruction occurs. Countries with special relationships with the U.S. demand receive generous quota treatment. China is a case in point.

Since 1980, China has moved from No. 5 slot of a major exporter into the United States to the No. 2 slot. And as a matter of fact, for the first several months of this year, its shipments, pursuant to its extant agreement, have far exceeded the agreements and they are now sitting in Customs tied up because in the first 3 months it has exceeded its quota shipments already. Right now we are negotiating a new bilateral. We know the importance of China in terms of our relationship vis-a-vis Russia, but these are the considerations that enter into the administration of the act.

Furthermore, there are new starters. We are not only dealing with Hong Kong, Korea, Taiwan, and China. Every year and every month, there are new countries entering the market. What happens is delays occur before action is taken to restrain growing imports from new suppliers. We are forever chasing our tail, and we never catch up.

And more, finally, foreign exporters and U.S. importers find ways to cheat on the quotas, and due to staffing shortages Customs is ill-equipped to detect the circumvention. Some of the countries who are the major exporters to the United States find ways of transshipment through other countries. Unless you have a tight enforcement system in effect, that cannot be stopped. It is like an additional sieve in the cloth of trying to restrain the imports.

Earlier, you heard the mayor from the city of Fall River talking about what this industry is doing. I cannot testify, but my colleague from the textile industry can testify better about the amount of money that they are putting in yearly to modernize the industry.

Let me take another instance in which my union was involved. Let me refer also to the chairman and the members of the committee the report of the Office of Technology Assessment. That is one of your own reports by one of your own staffs.

"Productivity and apparel assembly still utilizes mostly handwork and sewing machines. It advanced faster than the manufacturing average between 1975 and 1985." Moreover, at the initiative of my union working together with several major fiber, textile, and apparel companies and the National Science Foundation and the U.S. Department of Commerce, the Tailor Clothing Technology Corp. was established. Working with the MIT laboratory, technical research has been undertaken to develop changes in production processes, technology, despite its explicit goal of reducing labor content.

We have spent together millions of dollars on this research, which is well-advanced and has had many successes.

As a matter of fact, feasibility testing is now underway in three or four apparel plants.

I should point out that the whole industry, organized labor and the Federal Government may be spending less than $10 million a year on this research. Now, let us take a look at what the Japanese are doing. They have already committed $120 million, a similar but a broader effort. While we are trying to automate production of sewing, the Japanese program, according to the Office of Technology Assessment, represents "state-led"—state-led, not private—"state-led, industrial restructuring."

I submit, Mr. Chairman, that Congress has a major decision to make on the legislation which you are considering. The textile, apparel and footwear industries are at the crossroads. One path is a continuation of the status quo of the present system. All the reports and all the studies that I have read, Mr. Chairman, lead to one simple conclusion, and that is the extinction of the industries as we know them today.

We will end up sacrificing hundreds of thousands of jobs on the altar of a misguided trade policy. The path of H.R. 1154 leads to a chance, and I daresay more than a chance, an opportunity for this country to preserve industries that have been in the forefront of America's economic growth.

The certainty which this legislation will bring will mean that there is a future for these industries and for their some 2 million workers. The path you choose will be as fundamental a policy decision as the U.S. Congress has ever made.

Thank you, Mr. Chairman.

[The statement of Mr. Sheinkman follows:]

STATEMENT OF JACK SHEINKMAN, SECRETARY-TREASURER, AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION, AFL-ClO, TO SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES ON H.R. 1154, THE TEXTILE AND APPAREL TRADE ACT OF 1987

May 7, 1987

I am Jack Sheinkman, Secretary-Treasurer of the Amalgamated Clothing and Textile Workers Union, AFL-CIO. I requested this time to testify to support the passage of H.R. 1154 by Congress. I am here on behalf of the 284,000 members of our Union in the textile, apparel, and footwear industries who have felt the relentless hammering of imports on their jobs. They live and work in rural communities, in small towns and in large cities, from Maine to Florida, from East Coast to West Coast.

I.

I appear more in sorrow than in anger. There should be no need for textile quota legislation. After all, there is the Multifiber Arrangement or MFA which recognizes the particular vulnerability of the textile and apparel industries to disruptive import competition and the importance of these industries to the American economy.

The aim of the MFA is to promote orderly growth of textile and apparel trade among countries, but on a sound, non-disruptive basis. As the recently-issued special report of the Office of Technology Assessment points out: "The United States is one of the few nations that has left its markets largely open to foreign sales of textiles and apparel..." and, as a result, "it is becoming increasingly unlikely that the industry will be able to maintain its present position in the U.S. economy without action to counter the rising tide of imports."

II.

Our hopes and aspirations for the MFA, however, have been dashed by a flood of imports in recent years. The bilateral agreements have not stemmed the flow of imports to the point where market disruption is avoided. Far from it. Witness these facts --

- From 1980 to 1986, textile and apparel imports have grown by better than 17 percent annually, while the U.S. market has grown by only 1 percent a year.

- Apparel imports now have more than 50 percent of the U.S. market.

- From 1980 to 1986, some 250 textile and apparel plants closed. This cost 300,000 textile and apparel jobs plus another 150,000 jobs in industries dependent on the textile and apparel industries, and cost another 750,000 job opportunities which went to foreign producers.

- The textile and apparel trade deficit reached $21 billion in 1986, accounting for over 12 percent of the nation's total trade deficit of $170 billion.

III.

It should be made clear that the great growth in imports and the adverse effect that this has had on the domestic textile and apparel industries has come despite the commitment of Ronald Reagan during the Presidential campaign of 1980 that, if elected president, he would relate growth in imports of textiles and apparel to the long-term growth of the domestic market. This reflected concerns on the part of the domestic industries that despite the Multifiber Arrangement import pressures were growing steadily, particularly with the People's Republic of China entering the United States market.

Despite the Reagan commitment on textiles and apparel, reaffirmed incidentally subsequent to his taking office as President, import growth that has occurred since has clearly made a mockery of the MFA concept of "orderly growth."

In the case of footwear there never was any question as to where President Reagan stood with regard to footwear imports; he terminated import relief in mid-1981 and refused to institute import relief in 1985 after a unanimous finding of serious injury from imports by the International Trade Commission that had closed some 280 footwear factories and cost 51,000 footwear jobs. Imports now have over 80 percent of the U.S. footwear market and contribute $6 billion to the nation's trade deficit.

The attitude of the Reagan Administration towards these industries can be described, at best, as benign neglect, and at worst, hostility. Those who oppose the President's policy are labeled as "protectionist," a perjorative that carries with it the same connotation as if one were a leper or had a social disease.

IV.

It is no wonder then that those Government officials who administer the Multifiber Arrangement for the United States have not seen fit to take actions necessary to meet the commitment of their President. The recent shortcomings of the implementation of the MFA are several --

- The Executive Branch has never determined the total volume of imports of individual categories that can be allowed to enter the U.S. before market disruption occurs. Thus, there is no global approach to knowing when imports begin to hurt. Imports from individual countries are handled ad hoc without a broader picture in mind. Countries with special relationships with the U.S. demand and receive generous quota treatment. Thus, what we have, is a program originally designed to prevent disruption from imports being used to pay for other U.S. objectives to the detriment of the very industry that it was intended to help. The result has been imports in excess of the point of disruption of the domestic industry.

- The inter-agency mechanism allows delays to occur frequently before action is taken to restrain growing imports from "new starters". These delays result in quota-free imports and higher base levels when quotas may subsequently be imposed.

- Executive Branch officials almost seem to go out of their way to consistently interpret what the U.S. can and cannot do under the MFA in an unnecessarily restrictive way, not like our European friends who seem to be able to do what they want under the MFA. This has resulted so very often in failure to prevent excessive import growth into the U.S. market.

- Almost every week we learn of more cheating by foreign exporters and U.S. importers. Customs is like the "sorcerer's apprentice"; it cannot keep up with the flood of circumvention actions that are occurring under the MFA. What are needed are more Customs officials to enforce the MFA, not fewer as the Reagan Administration has proposed.

V.

That is why H.R. 1154 is so important for the future of the domestic textile, apparel, and footwear industries. It represents a major concession in providing for no rollbacks below the already high 1986 import levels. This bill meets the basic requirement for effective import control by establishing a maximum quantity of each category that can be imported from all sources. It is GATT consistent. This globalization of import quotas in H.R. 1154 is not a new concept. We have it under Section 22 of the pre-war Agricultural Adjustment Act; we have it under Section 203 (the "Escape Clause") of the Trade Act of 1974. Globalization has been implemented pursuant to both statutes for various products. It is the sine qua non for effective import control. The bill allows the Secretary of Commerce to develop the means for implementing the program. It does not necessarily follow that bilateral agreements have to be done away with.

A second requirement is an annual growth factor that more closely resembles the growth of the market than what has been permitted to occur in recent years under the MFA. If the U.S. market for textiles and apparel has grown by 1 percent per annum over the long-term, to permit annual import growth of more than 17 percent, as we have experienced since 1980, will spell the demise of these industries as we know them by the end of this century.

H.R. 1154 provides for 1 percent per annum growth for textiles and apparel. It provides for no annual growth for footwear imports. This is because the growth of footwear imports has been so phenomenally large over the last several years that imports now enjoy over 80 percent of the domestic market. Those of us concerned with the viability of the footwear industry must say "enough is enough".

Finally, there must be a predictable system. The way in which the MFA has been administered has certainly created major uncertainty for both the domestic industry and for importers. Credibility is an essential characteristic of effective implementation. That has been lacking in the MFA. H.R. 1154 restores credibility to an import quota system.

The passage of this legislation does not absolve the textile and apparel industries, including our union, of their obligations. They must continue to invest, to develop new state-of-the-art equipment and techniques, and to innovate on the road of successful competition.

As the special report of the Office of Technology Assessment points out: "Productivity in apparel assembly, which still utilizes mostly hand-work and sewing machines, advanced faster than the manufacturing average between 1975 and 1985." Moreover at the initiative of our union working with several major fiber, textile, and apparel companies, the National Science Foundation, and the U.S. Department of Commerce, the Tailored Clothing Technology Corporation was established. Working with MIT's Draper Laboratory, technological research has been undertaken to develop changes in production process technology, despite its explicit goal of reducing labor content. We have spent together millions of dollars on this research which is well advanced and has had many successes. Feasibility testing is underway in apparel plants.

I should point out that while industry, organized labor, and the Federal Government may be spending less than $10 million a year on this research, the Japanese Government and industry have committed $120 million for a similar but broader effort. While we are trying to automate the production of sewing, the Japanese program, according to the Office of Technology Assessment, represents "state-led industrial restructuring."

VI.

Congress has a major decision to make on the legislation which you are considering today. The textile, apparel, and footwear industries are at a crossroads.

One path is the continuation of the status quo of the present system. It will surely lead to the extinction of these industries as we know them today. We will have sacrificed hundreds of thousands of jobs on the alter of a misguided trade policy.

The other path, H.R. 1154, leads to a chance, indeed an opportunity, for this country to preserve industries that have been at the forefront of America's economic growth. The certainty which this legislation will bring will mean that there is a future for these industries and for their 2 million workers.

The path you choose will be as fundamental a policy decision as the U.S. Congress has ever made.

Chairman **Gibbons**. Thank you.

Mr. **Gregg**. Mr. Chairman, we would like to have Robert G. Laidlaw, who is president of the American Textile Manufacturers Institute. He is also chairman of Coats & Clark, Stamford, CT, and he will present the textile side.

Robert.

STATEMENT OF ROBERT G. LAIDLAW, PRESIDENT, AMERICAN TEXTILE MANUFACTURERS INSTITUTE, AND CHAIRMAN, COATS & CLARK, INC., STAMFORD, CT, AND ON BEHALF OF FIBER, FABRIC & APPAREL COALITION FOR TRADE

Mr. **Laidlaw**. Mr. Chairman, I appreciate the opportunity to testify before this committee. My name is Robert Laidlaw. I am president of the American Textile Manufacturers Institute. I am also chairman of Coats & Clark, Inc., a major U.S. thread producer.

ATMI is a national trade association which represents between 85 and 90 percent of all U.S. production in the textile mill products industry. ATMI is also a member of the Fiber, Fabric & Apparel Coalition for Trade, FFACT, and appreciates the opportunity to testify here in support of H.R. 1154, the Textile and Apparel Trade Act of 1987.

The U.S. textile industry has seen its work force shrink from 848,000 workers in 1980 to [illegible]27,000 today. Import penetration in the U.S. apparel and apparel fabric industry has increased during that period of time from about 28 percent to over 50 percent today. Apparel fabric production represents 35 to 40 percent of the total production of the U.S. textile industry.

I would like to explain two current but mistaken notions about the textile industry. The first is that because we are running at very high capacity levels at this time that we are undeserving of any legislative relief. The second is that because industry's profits are up at the present time we should be denied a legislative remedy to our problem.

Concerning the current approximately 91 percent level of capacity utilization in the U.S. industry, I would like to point out that historically over the decades, the industry has run at an average capacity utilization of about 87 percent. But this is clearly no indicator of the well-being of the industry. Its output has declined steadily over the past 10 years, as has the number of textile workers employed. The nature of textile production is such that the industry's break-even point is higher than in many manufacturing industries. Textile mills must run at high capacity utilization, and often do so with only a hope of finding profitable markets for their production.

Secondly, the domestic industry has permanently shut down over six percent of its basic production capacity in the last four years, due mainly to imports. Had these plants been running today, capacity utilization in the industry would be about 85 percent or less. So it is wrong to say that merely because textile mills are operating at high capacity utilization that the present health of the industry is good or that the outlook for the industry is good. Our rates are up not because business is better, but because capacity has shrunk.

With respect to profits, it is a fact that textile profits are up in the most recent 12-month period compared to the same period a year ago. However, profit margins are approximately what they were in 1983 and are only slightly higher than 1984. 1985 was a disastrous year for the industry, and certainly profits are higher than that recent low point. But, more importantly, textile profits follow a cyclical pattern. I have attached to my written statement a chart which shows the movement in textile industry profits over the past 35 years. One can see that in some years they are up and in some they are down. But the significant point is that the industry is continuing to shrink, and its share of the domestic market is becoming smaller and smaller.

The U.S. textile industry has invested huge sums of money, employs large numbers of American workers, and is modern and efficient. All of that is being wiped out by imports. Prompt enactment of H.R. 1154 is essential if this major part of U.S. manufacturing is to continue to be a modern and productive employer of U.S. workers.

Mr. Chairman, I appreciate the opportunity to present this.

[The statement of Mr. Laidlaw follows:]

TESTIMONY OF ROBERT G. LAIDLAW, PRESIDENT
AMERICAN TEXTILE MANUFACTURERS INSTITUTE (ATMI)
CHAIRMAN, COATS & CLARK, INC.

Mr. Chairman, my name is Robert Laidlaw, I am President of the American Textile Manufacturers Institute (ATMI) and Chairman of Coats and Clark, Inc., a major U.S. thread producer. ATMI is a national trade association which represents between 85 and 90 percent of U.S. production in the textile mill products industry. ATMI is also a member of the Fiber, Fabric and Apparel Coalition for Trade (FFACT) and appreciates the opportunity to testify here in support of H.R. 1154, The Textile and Apparel Trade Act of 1987.

The U.S. textile industry has seen its work force shrink from 848,000 workers in 1980 to 727,000 today. Import penetration in the U.S. apparel and apparel fabric industry, has increased during that period of time from about 28 percent to over 50 percent today. Apparel fabric production represents 35 to 40 percent of the total production of the U.S. textile industry.

Imports of textile products other than apparel and apparel fabrics have also risen rapidly since 1980. We estimate that import penetration in these products has increased from 5 percent in 1980 to 16 percent currently. As you can see, there is no segment of our industry which is not under extreme pressure from rapid growth of imports.

If import growth does not decrease to a rate of growth approximating the one percent growth of the U.S. market, the die is cast. There will be a continual, steady liquidation of the U.S. textile and apparel industry in spite of the large investments in modern equipment which has made the industry modern and productive. Further job losses will occur and another major manufacturing sector in the U.S. will be lost. That is why H.R. 1154 is so critically needed.

I would like to conclude by dealing with two current but mistaken notions about the textile industry. The first is that because we are running at very high capacity levels at this time, that we are undeserving of any legislative relief. The second is that because the industry's profits are up at the present moment, we should be denied a legislative remedy to our problem

Concerning the current 91 percent level of capacity utilization in the U.S. industry, I would like to point out that historically -- over decades -- the industry has run at an average capacity utilization of about 87 percent. But, this is clearly no indicator of the well being of the industry; its output has declined steadily over the past ten years, as has the number of textile workers employed. The nature of textile production is such that the industry's breakeven point is higher than in many manufacturing industries. Textile mills must run at high capacity utilization and often do so with only a hope of finding profitable markets for their production.

Secondly, the domestic industry has permanently shut down over 6 percent of its basic production capacity in the last four years, due mainly to imports. Had those plants been running today, capacity utilization in the industry would be about 85 percent or less. So it is wrong to say that merely because textile mills are operating at high capacity utilization that the present health of the industry is good or the outlook for the industry is good. Our rates are up not because business is better, but because capacity has shrunk.

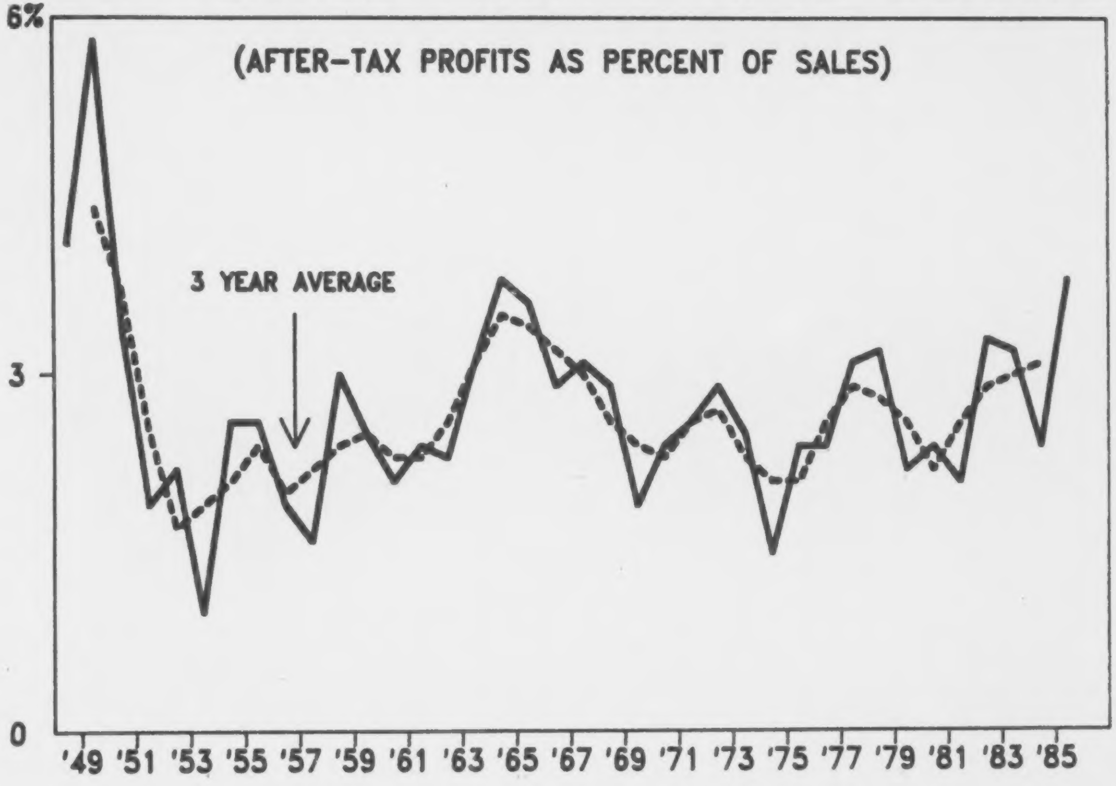
With respect to profits, it is a fact that textile profits are up in the most recent twelve-month period compared to the same period a year ago. However, profit margins are approximately what they were in 1983 and are only slightly higher than 1984. 1985 was a disastrous year for the industry and certainly profits are higher than that recent low point. But, more importantly, textile profits follow a cyclical pattern. I have attached to my written statement a chart which shows the movement in textile industry profits over the past 35 years. One can see that in some years they're up and in some years they're down. But, the significant point is that the industry is continuing to shrink and its share of the domestic market is becoming smaller and smaller. One could argue that when imports take over the apparel and apparel fabric market, there may be one or two textile mills left in the U.S. and those mills would probably be profitable. But, I think Congress is concerned about the longer-run outlook for the industry whose share of the market is being steadily eroded by imports and whose employees are finding their jobs taken away by overseas producers. And, only Congress can do something to remedy this problem.

The U.S. textile industry has invested huge sums of money, employs large numbers of American workers and is modern and efficient. All of that is being wiped out by imports. Prompt enactment of H.R. 1154 is essential if this major part of U.S. manufacturing is to continue to be a modern and productive employer of U.S. workers.

Thank you.

TESTMONY/#13/cmm

HOW TEXTILE PROFITS HAVE BEHAVED



Chairman GIBBONS. Thank you.

Mr. GREGG. Mr. Chairman, we have with us the chairman of the National Cotton Council of America, Lloyd Cline, cotton producer from Texas.

Lloyd.

STATEMENT OF LLOYD E. CLINE, CHAIRMAN OF THE BOARD, NATIONAL COTTON COUNCIL OF AMERICA, AND ON BEHALF OF FIBER, FABRIC & APPAREL COALITION FOR TRADE

Mr. CLINE. Thank you. Thank you, Mr. Chairman. My name is Lloyd Cline. I am a cotton farmer and banker from Lamesa, Tex. I serve as chairman of the board of the National Cotton Council.

The National Cotton Council is the central organization of the American cotton industry, representing cotton producers, ginners, warehousemen, merchants, cooperatives, cottonseed crushers, and textile manufacturers from the Carolinas to California.

The statistics that I will cite in my testimony today are from the Department of Agriculture and the Department of Commerce.

The council strongly endorses the Textile and Apparel Trade Act of 1987, H.R. 1154, and respectfully urges support for it by members of the House Ways and Means Committee.

Cotton textile and apparel imports over the past 6 years have had an enormous impact on the U.S. cotton industry. They have more than doubled since 1980 and now account for 38 percent of the cotton consumed by the U.S. population and over half of apparel consumption.

American consumers are buying more cotton textile products than they have for the past 20 years. Since 1980, their cotton consumption has grown by 3.3. million bales. But imports of cotton textile products have taken two-thirds of that growth.

Equally alarming is the fact that 80 percent of the cotton in textile imports is not U.S. grown but is foreign grown cotton. The expanding consumer market for cotton in this country did not just happen; U.S. cotton growers for nearly 20 years have been assessing themselves to build that market. It is ironic that most of the benefits of the market growth created and paid for by U.S. cotton farmers has not accrued to them, but to our competitors, the foreign producers of cotton.

Moreover, those same imports have taken dollars out of U.S. farmers' pockets. Even while cotton textile imports increased 133 percent, the price of cotton in this country fell by more than one-third. And this drop, combined with lost markets, has resulted in billions of dollars in losses for U.S. cotton producers since 1980.

In 1960, fewer than four garments were imported for every 100 made in the U.S.A. But today, 68 out of 100 men's cotton sport coats are imported; 59 out of 100 children's cotton playsuits are imported; and 62 out of 100 women's cotton shirts and blouses are imported.

That means that hundreds of thousands of jobs have been affected in the cotton industry and in industries that supply goods and services to the fiber, textile and apparel industries.

It has been claimed that if textile import growth is limited, consumer prices will rise. But experience shows this is not the case. In markets like cotton velveteens, where U.S. manufacturers have been completely eliminated by unfair competition, prices of imported products have risen higher than previously quoted.

The reasons for the textile import surge are fairly obvious. Made-up textile products require a lot of labor, and with foreign wages often less than $1 an hour, our country—with its legally mandated wages and working conditions—finds it almost impossible to compete.

U.S. environmental and workplace regulations add more costs. And in many cases, our products must compete with exports that are subsidized either directly or indirectly by foreign governments.

To make matters worse, the negotiated import quotas have loopholes and are often circumvented by falsifying products' country-of-origin and by mislabeling merchandise.

Experience over more than two decades proves that negotiated textile trade agreements are not an adequate solution. It is naive to believe that the foreign textile and apparel manufacturers will hold their export growth to the percentage allowed under international and bilateral agreements.

The People's Republic of China, bent on using textile exports as its main source of foreign exchange earnings, has become the single largest source of textile imports into the United States. This last year alone, China's textile exports to the United States have shot up 65 percent. We can only guess how much more China sent us through other countries. But we do know that when we tightened our country-of-origin rules, China was quite vocal and quite vehement in its objections.

Textile and apparel imports pose an extremely serious problem for the cotton industry as well as for related industries and for our national economy. Accordingly, we solicit your support for the Textile and Apparel Trade Act of 1987 which will help to provide a reasonable and equitable solution.

Thank you, Mr. Chairman.

Chairman GIBBONS. I would like to get some cotton figures from you because I am trying to follow on the figures I have here. So when we come back, I would like to get those. If you can tell me the category number, it might help me find them here if you know them or not.

Mr. CLINE. Yes, sir, we will do that.

[The following was subsequently received:]

NATIONAL COTTON COUNCIL OF AMERICA
EXECUTIVE BUILDING / 1030 FIFTEENTH STREET, N.W. / SUITE 700
WASHINGTON, D.C. 20005
TELEPHONE: (202) 833-2943

June 2, 1987

The Honorable Sam M. Gibbons
Chairman, Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Gibbons:

During the subcommittee hearings on the Textile and Apparel Trade Act of 1987 held May 7, 1987, you expressed an interest in the sources of data cited by the FFACT panel. Although there were no specific questions about the statistics included in Mr. Cline's testimony, presented on behalf of the National Cotton Council, we have prepared the attached explanation of the source of various statistics included in Mr. Cline's testimony.

If we can provide additional information or data, please don't hesitate to contact me.

Sincerely,

John Maguire
Director - Washington Operations

AJM/jlc
Enclosure

June 2, 1987

Documentation of Textile Consumption and Import Data Referenced in Statement of Lloyd Cline for the National Cotton Council of America before the House Ways and Means Committee May 7, 1987

Whenever possible, National Cotton Council data on textiles are expressed in raw fiber equivalents; i.e., the estimated pounds of raw fiber used to manufacture yarns, fabrics, and diverse end-use products. The methodology for converting from square yards of fabrics and from end-use products to raw fiber equivalents is institutionalized in the Economic Research Service of USDA, with summary results reported in selected issues of Cotton and Wool Situation and Outlook. The National Cotton Council uses similar methodology to derive its raw-fiber-equivalent estimates of cotton used in some 450 end-use products made by U.S. textile manufacturers, as published in annual issues of Cotton Counts Its Customers.

Listed below are claims made before the House Ways and Means Committee, along with the sources of data used:

CLAIM: Between 1980 and 1986, cotton textile and apparel imports more than doubled; they increased 133%.

SOURCE: USDA, ERS, NED. Cotton and Wool Situation and Outlook, published biannually.

CLAIM: Between 1980 and 1986, Americans increased cotton consumption by 3.3 million bales (480-lb. net weight), but imports of cotton textiles have taken two-thirds of that growth.

SOURCE: Retail consumption of fibers is estimated by deriving the "net domestic consumption", which is equal to domestic mill use plus cotton textile imports minus cotton textile exports—all expressed on a raw fiber equivalent basis. Mill use and yardage of imports and exports are estimated by the U.S. Bureau of the Census, with the raw fiber equivalent of cotton textile imports and exports is estimated by USDA, ERS, NED. All these data are reported in selected issues of Cotton and Wool Situation and Outlook.

CLAIM: Cotton textile imports account for over half of apparel consumption. Furthermore, 68% of men's cotton sport coats are imported, 59% of children's cotton playsuits are imported, and 62% of women's cotton shirts and blouses are imported.

SOURCE: Estimates of domestic apparel production in 1986 were taken from the National Cotton Council's Cotton Counts Its Customers, 1987 edition. Estimates of apparel imports in 1986 were taken from the Office of Textiles and Apparel, U.S. Department of Commerce, Major Shippers Report: Selected Import Statistics on Textiles and Apparel by Category and by Country, January 1987. Results indicate that cotton textile imports account for almost 52% of all apparel available in the U.S. market. Note: Due to the unavailability of complete data in pounds of raw fiber, all of the numbers in these calculations were expressed in square yards.

CLAIM: In 1986, China's textile exports to the U.S. increased 65%.

SOURCE: Office of Textile and Apparel, U.S. Department of Commerce, Major Shippers Report: Selected Import Statistics on Textiles and Apparel by Category and by Country, March 1987. On a square-yard basis, the increase was 65.8%. USDA's conversion to raw fiber equivalent indicated an increase of 66.2%.

Mr. GREGG. Mr. Chairman, we would like to introduce a very important member of our coalition, Robert Slosberg, who is chairman of the national affairs committee for the Footwear Industries of America. He is also president of Ripley Industries in St. Louis.

Robert.

STATEMENT OF ROBERT H. SLOSBERG, CHAIRMAN, NATIONAL AFFAIRS COMMITTEE, FOOTWEAR INDUSTRIES OF AMERICA, AND PRESIDENT, RIPLEY INDUSTRIES, INC., ST. LOUIS, MO.

Mr. SLOSBERG. Mr. Chairman, thank you.

Chairman GIBBONS. Before you start, I just want you to know I have got on my Made in America shoes.

Mr. SLOSBERG. Thank you, sir. We hope that everyone else does, too.

Chairman GIBBONS. All the rest of my clothes are made in America, too.

Mr. SLOSBERG. That is even a better blessing for all of us.

I am Robert Slosberg, president of Ripley Industries. We are a supplier to the domestic footwear industry and to the textile and apparel industry, headquartered in St. Louis, Mo., with facilities in Missouri, New Hampshire, and Maine.

As Mr. Gregg said, I also serve as chairman of the National Affairs Committee of the Footwear Industries of America, a trade association representing domestic manufacturers of nonrubber footwear and its suppliers.

The nonrubber footwear industry strongly supports the passage of H.R. 1154.

No major manufacturing industry in this country has been as hammered by imports as has the nonrubber footwear industry. No other industry has seen so much of the U.S. market lost to imports so rapidly or has lost as much production and as many jobs in proportion to its size because of imports as have we. No other industry has worked so hard or availed itself of as many of the trade statutes to little or no avail as have we. If this industry is to survive, we are left with no other option than H.R. 1154.

Let me give you a brief synopsis of what has happened in the last 20 years. After experiencing in the year 1986, where the import penetration level reached 81 percent, the highest level ever, it is hard to believe that imports ever took less than 10 percent of the U.S. market. Yet this was true as late as 1963. Since that time, shoe imports have steadily edged upwards reaching 368 million pair, or 40 percent of the U.S. market in 1977, the year when the orderly marketing agreements with Korea and Taiwan went into effect. When the OMA's were not extended by President Reagan in 1981, U.S. shoe production and U.S. imports were roughly equal, with imports accounting for just one-half of our market.

In every year since 1981, however, the U.S. production level has fallen as imports have grown by 100 million pair per year. Clearly, without some action to stem this flood of imports, they will continue until the U.S. industry is entirely eliminated.

Domestic production has been forced to shrink. It peaked at 642 million pair in 1968. During the OMA period, production declined at about 3 percent per year. Since the end of the OMA's, the decline have been much more dramatic: 11 percent between 1983 and 1984; 12 percent between 1984 and 1985; and another 12 percent between 1985 and 1986. Thus, in slightly more than 10 years, domestic production has been cut in half due to the rising level of imports into this country.

Since 1981, over 300 plants have been closed. The industry in 1981 employed 146,000 workers in direct manufacturing alone and another 95,000 in support industries. Last year, the industry employed only 93,000 workers in direct manufacturing with concurrent declines among the suppliers.

The nonrubber footwear industry employs a large proportion of women and minority workers who, due to the nature of the work involved in making shoes, are generally without the skills required to find new employment readily. Further, many footwear factories are located in rural areas where they provide the main or sole source of employment in that area.

We have not sat helplessly by and watched our industry go down the drain. We placed our trust and confidence in the laws of the land and the commitments of our government officials, only to be sadly disabused by failure to deliver effective section 201 import relief, or, indeed, any import relief.

Over the years, the domestic footwear industry has utilized existing trade remedy laws in good faith only to be denied justified import relief at critical junctures. Had effective import relief been granted at these times, our industry would most certainly be more vibrant and successful than it is now, and we would probably not be here today asking for passage of this legislation. As it is, we have no alternative but to seek a legislative solution, one which will simply permit us to hold on to the small remaining portion that is left of our industry.

Our odyssey here today is strewn with unsuccessful attempts to gain relief under the trade laws. The Reagan administration has twice refused to grant this industry import relief under the "escape clause" following unanimous and affirmative decisions by the International Trade Commission.

The overwhelming majority of this industry's petitions under section 301, against eight countries, alleging numerous unfair trade practices, was all but dismissed by this same administration.

We have undertaken seven countervailing duty cases—Spain, Brazil, Argentina, Taiwan, Korea, Uruguay, India—against developing countries which subsidize their exports of footwear to the United States market. Relief, when it has come, has been too little and too late. The case of Brazil is illustrative of the problem. The third largest supplier to the U.S. market, Brazil not only violated its commitment to offset its rebate of export taxes on footwear, but has repeatedly violated its commitment under the Subsidies Code to terminate its subsidies. With respect to the latter, Brazil claimed balance of payment problems, the United States failed to act, and Brazil continues to receive the injury test. We could go on and on, but in brevity we will leave it with that.

While this administration has surely helped bring about the decline of our industry, former administrations are not blameless. President Nixon provided no import relief for this industry even though he had initiated the case in 1970. The Ford administration responded to another escape clause case by rejecting import relief despite a commitment that he would provide it if the industry petitioned under the escape clause. Only President Carter granted our industry relief through two orderly marketing agreements, but that relief was flawed. And President Reagan, despite a unanimous, affirmative ITC recommendation that relief be continued, turned the industry down in mid-1981.

Is it any wonder why we are turning to the Congress for relief that the ITC says we deserve, but the White House has denied?

Chairman GIBBONS. You do know that in the new trade bill we change the law on that?

Mr. SLOSBERG. Sir, with all due respect, the new bill has not been enacted into full legislation. If we keep going this way, we will not have time.

Chairman GIBBONS. I know that. I just wanted to make sure you understood that.

Mr. SLOSBERG. Yes, sir. I am aware of that.

Chairman GIBBONS. We were concerned about that decision.

Mr. SLOSBERG. Despite these almost insurmountable difficulties, real efforts are being made by the industry to become more competitive. Many footwear manufacturers and their suppliers have begun Just in Time programs, a new form of inventory management based on the Japanese, by the way.

Our Quick Response Program allows us to take advantage of the proximity to our own market by responding more quickly to retailers' needs, including being tied directly from shoe manufacturers into the retailers so we know exactly what they are selling almost hour by hour and can replenish stocks.

Computer-aided design systems and computer-aided manufacturing are revolutionizing the way that shoes are made and helping us compete with third-world manufacturers.

The problem for the industry is that the tremendous import surges of the last 5 years have increasingly deprived our firms of profits that can be reinvested in new technology, but also the confidence that the investments will pay off in increased, or even stable, production levels.

H.R. 1154 is far from Draconian. It does not roll imports back below the record high 1986 import level. It does provide our industry with the certainty as to what imports will be in the future to permit us to plan for the future, albeit with but 20 percent of the market.

We urge the subcommittee to report out H.R. 1154 favorably. I thank you very much.

[The statement of Mr. Slosberg follows:]

TESTIMONY OF ROBERT H. SLOSBERG,
PRESIDENT, RIPLEY INDUSTRIES, INC.
TO SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ON H.R. 1154, THE TEXTILE AND APPAREL TRADE ACT OF 1987
MAY 7, 1987

I am Robert H. Slosberg, President of Ripley Industries, Inc. We are a supplier to the domestic footwear industry based in St. Louis, Missouri, and with facilities in Missouri, New Hampshire and Maine. I also serve as Chairman of the National Affairs Committee of Footwear Industries of America, the trade association representing domestic manufacturers of nonrubber footwear and its suppliers. The nonrubber footwear industry strongly supports the passage of H.R. 1154 by Congress.

I.

No major manufacturing industry in this country has been as hammered by imports as has the nonrubber footwear industry. No other industry has seen so much of the U.S. market lost to imports so rapidly as has the nonrubber footwear industry. No American industry has lost as much production and as many jobs in proportion to its size because of imports as has our industry. No other industry has worked so hard or availed itself of as many of the trade statutes -- and to little or no avail -- as we have. If this industry is to survive, we are left with no other option than H.R. 1154.

Let me recount for you what has happened to this basic American industry over the last twenty or so years.

Right now, after experiencing a year where the import penetration level reached 81 percent -- the highest level ever -- it is hard to believe that imports ever took less than 10 percent of the U.S. market. Yet this was true as late as 1963, which was really not so long ago. Since that time, shoe imports have steadily edged upwards, reaching 368 million pairs, or 47 percent of the U.S. market, in 1977, the year when Orderly Marketing Agreements with Korea and Taiwan went into effect. When the OMAs were not extended by President Reagan in 1981, U.S. shoe production and U.S. imports were roughly equal, with imports accounting for just one half of our market.

In every year since 1981, however, the U.S. production level has fallen as imports have grown by 100 million pairs per year. In 1986 shoe imports totalled 941 million pairs -- 12 percent higher than the import level in 1985. If 1987 should see another 12 percent increase in imports, U.S. shoe imports would be well over 1 billion pairs. Clearly, without some action to stem this flood of imports, they will continue until the U.S. industry is wiped out entirely.

While this tremendous growth in imports has been occurring, domestic production has been forced to shrink. Domestic production peaked at 642 million pairs in 1968. During the OMA period, production declined at about 3 percent per year. Since the end of the OMAs, the declines have been much more dramatic: 11 percent between 1983 and 1984, 12 percent between 1984 and 1985, and another 12 percent between 1985 and 1986. Thus, in slightly more than ten years, domestic production has been cut in half due to the rising level of imports into this country.

Lower production levels and higher import levels have taken their toll on domestic companies, which have been forced to close plants permanently. Since 1981, over 300 plants have been closed. Over one hundred of these closings occurred in one year alone.

It has thus been the industry's employees who have faced the day-to-day reality of the hammering effect of imports on their industry. In 1981, the industry employed 146 thousand workers in direct manufacturing alone and another 95 thousand in support industries. This employment level fell over 35 percent between 1981 and 1986, and last year the industry employed only 93 thousand workers in direct manufacturing with concurrent decline among suppliers.

The true impact of these layoffs becomes more clear when you consider that the nonrubber footwear industry employs a large proportion of women and minority workers, who, due to the nature of the work involved in making shoes, are generally without the skills required to find new employment readily. Further, many footwear factories are located in rural areas, where they may provide the main or sole source of employment for the region. It may be impossible to quantify in dollar terms the hardships endured by these laid-off workers, but it is possible to guard those remaining jobs, in the hopes that the lay-offs will stop. The quota legislation being considered now will go a long way towards this goal.

II.

We have not sat helplessly by and watched our industry go down the drain. We placed our trust and confidence in the laws of the land and the commitments of our government officials, only to be sadly disabused by failure to deliver effective import relief, or, indeed, any import relief.

Over the years, the domestic footwear industry has utilized existing trade remedy laws in good faith only to be denied justified import relief at critical junctures. Had effective import relief been granted at these times, our industry would certainly be more vibrant and successful than it is now and we probably would not be here today asking for the passage of this bill. As it is, we have no alternative but to seek a legislative solution, one which will simply permit us to hold on to the small remaining portion that is left of our industry.

We have followed the laws and played by the rules, but successive administrations have shown us by their inaction or actions that we squandered precious time and substantial resources and should have come to Congress for relief in the first place. Our odyssey here today is strewn with unsuccessful attempts to gain relief under the trade laws.

-- The Reagan Administration has twice refused to grant this industry import relief under the "escape clause" following unanimous and affirmative decisions by the International Trade Commission.

-- The overwhelming majority of this industry's petition under Section 301 -- against 8 countries alleging numerous unfair trade practices -- was all but dismissed by this same Administration.

-- We have undertaken numerous countervailing duty cases against developing countries which subsidize their exports of footwear to the U.S. market. Relief, when it has come, has been too late and too little. The case of Brazil is illustrative of the problem. Brazil, the third largest supplier to the U.S. market, not only violated its commitment to offset its rebate of export taxes on footwear, but has repeatedly violated its commitment under the Subsidies Code to terminate its subsidies. With respect to the latter, Brazil claimed balance of payments problems, the U.S. failed to act and Brazil continues to receive the injury test in U.S. countervailing duty cases.

While this Administration has surely helped bring about the decline of our industry, former Administrations are not blameless in this regard. Under the "escape clause," President Nixon provided no import relief for this industry even though he had initiated the case and clearly implied he would provide import relief. Several years later the Ford Administration responded to another "escape clause" case by rejecting import relief despite a commitment in December 1974 that he would provide import relief if the industry petitioned under the "escape clause." Only President Carter granted our industry relief under the "escape clause" through two Orderly Marketing Agreements but that relief was flawed by the inability or unwillingness of the Carter Administration to effectively control import growth from other countries during the first 3 years of the 4-year relief period. By the fourth year, imports had finally leveled off, and domestic shoe production had stopped its precipitous decline. But it was, of course, the final year of the relief period and President Reagan, despite a unanimous affirmative USITC recommendation that the relief be continued, turned the industry down in mid-1981.

The much talked-about trade bill recently written by this Committee promises more of the same. There is not much in it that would help our industry. If anything, it will wound our industry even more because of the broad tariff-cutting authority it grants the President. This bill was not written with our problems in mind.

Is it any wonder why we are turning to the Congress for relief that the ITC says we deserve, but the White House has denied?

III.

It is important to understand why the industry did not find it possible to become competitive either under the prior period of import relief or since. While a number of firms have invested heavily in available state-of-the-art technology, this practice has been very uneven throughout the industry as a whole. It is certainly legitimate to ask why, if these technologies are currently available, the industry has not made wider use of them.

Data gathered by the ITC in an earlier investigation show that the industry almost doubled its level of capital expenditures between 1979 and 1981, the last three years of the import relief period, rising from $53.3 million to $95.7 million. While we believe this level of investment clearly indicates that the industry made serious efforts to improve its competitiveness during the relief period, there is no question that more could have been done. The primary reason more was not done was the failure of the import restraints to provide predictable and adequate relief. The relief, OMAs with Korea and Taiwan, restricted imports from only two of the many foreign suppliers of nonrubber footwear to the U.S. market. Under such a system, firms in the U.S. industry could have no assurance of increased production levels during the period of import restraint.

Following the termination of import relief, capital expenditures in the U.S. industry declined significantly, primarily because of uncertainty about the near-term prospects for individual firms and for the U.S. industry as a whole. There is little incentive to make additional capital investment when intense import competition makes even short-term survival problematic. The ability to obtain outside capital from banks, stock issues or the bond market is similarly affected by these uncertainties.

Despite these almost insurmountable difficulties, real efforts are being made by the industry to become more competitive. For example:

- Many footwear manufacturers and their suppliers have begun "Just in Time" programs, an inventory management program where manufacturers and suppliers arrange to have materials, such as leather, delivered only when it is time to use it, freeing up needed capital and storage space.
- Our "Quick Response" program, which started in the textile and apparel industry, allows us to take advantage of our proximity to our own market by responding more quickly to retailers' needs. The program is winning new orders, particularly in light of the fact of the long lead time associated with foreign sourcing.
- Computer aided design systems and computer aided manufacturing are revolutionizing the way that shoes are made and helping us compete with third-world manufacturers.

In short, the domestic nonrubber footwear industry finds itself in an extremely difficult and unenviable position. Through the aggressive efforts of FIA, the industry now has access to detailed information on how production costs and production time can be reduced through the use of currently-available state-of-the-art technology and machinery. The problem for the industry is that the tremendous import surges of the last five years have increasingly deprived U.S. firms not only of dollar profits that can be reinvested in new technology, but also the confidence that these investments will pay off in increased (or even stable) production levels. Moreover, the same lack of certainty about the prospects for the industry has caused and will continue to cause outside sources of capital to refrain from making substantial loans to the industry. Clearly, the industry will not be able to do what so urgently needs to be done unless and until it obtains a respite from the excessive import levels of recent years.

IV.

H.R. 1154 is far from Draconian. It does not roll imports back below the record high 1986 import levels. But it does provide our industry with the certainty as to what imports will be in the future to permit us to plan for the future, albeit with but 20 percent of the domestic market.

In this regard, all of us in the industry have been outraged by the charges made against this bill by retailers and importers. Their greed seems to know no bounds. How much more of our production do they want to send overseas with the jobs of our workers? Will they ever be satisfied until those who remain in this industry have closed the last shoe factory?

Take for example these outrageous allegations from a study commissioned by retailers and importers:

- "The legislation would require a reduction in future nonrubber footwear imports by freezing them at 1986 volumes." Since when does a standstill in import growth become a reduction? The answer lies simply in what importers and retailers have in store for this industry in the future if this legislation is not enacted -- further substantial import growth.

- Consumer costs of H.R. 1154 have been systematically overstated while the likely benefits to the economy as a whole have been underestimated. The fact is that the likely benefits associated with the footwear provisions of H.R. 1154 far outweigh any potential consumer costs.

- The beneficial effect on job creation resulting from H.R. 1154 has been understated to make the cost per job relatively high. The fact is that the legislation is likely to increase footwear industry employment by more than twice the 15,600 new jobs estimated by opponents of the legislation. And that does not include the positive indirect employment effects associated with increased footwear production, a fact completely ignored by opponents of H.R. 1154.

We urge the Subcommittee to report out H.R. 1154 favorably.

Mr. GREGG. Mr. Chairman, in summary, we would like to quote from the OTA report which we would like to submit for the record. Their conclusion is that the impact of the current levels of import penetration of the textile industry, in particular, is devastating. Imports may account for over 1 million lost job opportunities, not to speak of the additional losses through the ripple effect.

We think that we have an ongoing problem. We thank you for the opportunity for being here, and all of our members will be available to answer any questions.

Chairman GIBBONS. I thank you very much, and I appreciate the points that have been made here today and the vigor with which they have been made. I do not belittle your situation at all.

I know that you have been going through tremendous changes, particularly in over the footwear area. I must say probably one of the causes of the footwear problem is that shoes made here in the United States are so very good, not many people need to buy many of them.

Let me say, for instance, I have got a new pair of shoes that I have had about a week. If they last as long as the last pair of American shoes I bought, I will be 85 years old before I take these things off.

Mr. GUARINI. I hope you will take them off at least once before then, Mr. Chairman [Laughter.]

Chairman GIBBONS. I take them off to sleep and to bathe, but otherwise I wear them all the time.

Mr. SLOSBERG. Well, maybe you could buy them in a few other colors, sir.

Chairman GIBBONS. No. This is the only color that would go with everything. I can wear them dancing or to go to funerals or to attend Congress. So I wear them all the time. Mr. Frenzel buys his shoes at the same place. I guess we might as well be commercial; they are L.L. Bean's. There has been a slight increase in price, but I want to commend Mr. L.L. Bean. There has been very little increase in price. The last pair I bought was years ago.

Mr. SLOSBERG. We feel that we can compete with any firm in any country.

Chairman GIBBONS. I think what we are seeing is a lot of women's shoes come in. I have been through every pair of shoes I got in my closet, and they almost go back to World War II. And I cannot find a pair of foreign shoes in my closet. Now, I have not been over to Mrs. Gibbons' closet. That is a different proposition.

To what extent is this a men's-women's thing?

Mr. SLOSBERG. Well, sir, in the women's industry, we have probably in the dress shoe field, probably 80 percent plus import penetration. In the men's industry, I think we are somewhere around 71 percent import penetration. In the so-called athletic shoes, but are used for all types of purposes, the imports are probably 98 percent. We make athletic shoes. The children's industry is close to 83 percent of imported foot wear.

Now, that is all types of footwear; when I say "athletic," I am not referring to the actual spiked type of shoe that would be used in a soccer game, but I am referring to what we call joggers or things that can be used to cut your lawn as well as to take a walk down the street.

Chairman GIBBONS. We do recognize that there have been some decisions that did not quite square with our concept of how the trade laws should work, and we are trying to correct those things for your industry. I recognize that you have had a very high penetration. Your industry requires, I guess ever since people have been wearing shoes, an awful lot of hand and finger assembly in the process.

Mr. SLOSBERG. Yes, sir. It is a difficult thing, but we are making strides in changing the factory layouts and everything to increase the productivity, to make this industry more competitive. It cannot be done unless we have the funds. We cannot generate funds unless we have an industry that is profitable.

Chairman GIBBONS. Now, this is completely irrelevant to the problem, but I think it might help you to understand that I am interested in shoes. I know that at the time that Hadrian built the wall across England the English were having a hell of a time with Italian imports of shoes. That was almost 2,000 years ago. So it is a tough problem, and I do not belittle it at all. I hope we can all do something to help.

Mr. SLOSBERG. Thank you, sir.

Chairman GIBBONS. Now, let us go back to Mr. Roboz's testimony. He said that he had lost half of the market.

Now, Mr. Roboz, in all respect to you, maybe there is something I do not understand about all of this, but I am looking at figures compiled by the U.S. Government—the Census Bureau and the Bureau of Labor Statistics—in a table prepared by the International Trade Commission, dated March 4. And the first thing I notice is that exports really have gone up. Now, not much, not nearly as much as the imports, but they have really gone up. These are in current dollars so we are comparing oranges and oranges. Apparel exports, for example, have gone up from $593 million in 1974 to $1.213 billion in 1986. Now, that is in apparel.

Now, that is the worst impacted part of the area. But the ratio of imports to consumption in apparel has gone from 7.6 percent to 26.2 percent. Now, that is the worst case that I can make for loss of market. In other words, in dollars, in apparel only, you are now penetrated 26.2 percent. That is according to the U.S. Government.

Now, you said you lost half your market. What is wrong?

Mr. ROBOZ. One of the things that is wrong is that we are talking about different things as usual. I had the pleasure of debating against you 4 years ago in Boca Raton, and you and I went through this then.

Chairman GIBBONS. Yes, sir.

Mr. ROBOZ. I am talking on a square-yard basis.

Chairman GIBBONS. All right. Good.

Mr. ROBOZ. For apparel and apparel fabrics. I am basing myself on penetration based on Commerce import figures against Census production figures.

Chairman GIBBONS. Yes, sir. Okay.

Mr. ROBOZ. And the result of that is 52 percent.

Chairman GIBBONS. No, sir; 33 percent.

Mr. ROBOZ. Well, okay. I tell you what we will do, because as I say, I have a certain feeling of deja vu. May I have the opportunity of presenting this data to you in detail?

Chairman **Gibbons**. I would be happy to, and I think we need to. You know, I have got the figures, and 1986 was the worst year as far as penetration of imports on a square yard equivalent in apparel, just apparel only, not textiles. And I have got 33 percent. The production was 12 billion square-yard equivalents. The imports were 5.8 billion, and they figure imports as a percent of market share as 33 on a square-yard equivalent. Now, that is way off substantially.

Mr. **Roboz**. Sir, I am a businessman, not a statistician. I respectfully request the opportunity of presenting the basis of my data to you.

Chairman **Gibbons**. Sure, we would be happy to receive it.

Mr. **Sheinkman**. Mr. Chairman?

Chairman **Gibbons**. Yes, sir.

Mr. **Sheinkman**. I would like to clarify one aspect of your comment about the increase of exports in apparel. 807, which as you know, Mr. Chairman, means the goods are cut here and assembled elsewhere, are included in those figures. And you had an increase of 807 operations, and that does not mean goods exported made in the United States for sale abroad.

Mr. **Frenzel**. It works both ways. It goes back in.

Mr. **Sheinkman**. But that is not an export figure, sir. It does not mean it is an export.

Mr. **Frenzel**. It inflates the import.

Mr. **Sheinkman**. It supplements the import, sir. It does not replace it.

Mr. **Frenzel**. I said it inflates it.

Mr. **Sheinkman**. It inflates it, right, sir.

Chairman **Gibbons**. Let us look at the textiles, because there was a gentleman there who was talking about textiles.

The highest penetration I can get in dollars of textiles—and I am talking about textiles only now—is 7.3 percent of the whole market; 7.3 percent. And I have had Members of Congress get up here—and I am not going to defame or defend all Members of Congress—tell me that 50, 60, 70 percent imported textiles. The highest the Department of Commerce and the Census people could get is 7.3 percent in dollars, and in square-yard equivalents it is 23.8 percent, which must mean we are importing an awful lot of cheap cloth, if I understand it.

Now, let us go to the cotton. Mr. Cline, can you tell me what items you are citing? You said cloth coats.

Mr. **Cline**. Mr. Chairman, I think the category numbers, as I will give them to you, if we find what we have is not the correct number, we will supply that information to you for the record in writing.

Chairman **Gibbons**. I am just trying to follow them through because I am trying to follow these things out.

Mr. **Cline**. Yes, sir. I think on the sport coats, men's sport coats, that is category 333.

Chairman **Gibbons**. 333, yes, sir.

Mr. **Cline**. The next item I think will be 337.

Chairman **Gibbons**. All right, sir.

Mr. **Cline**. And then the women's blouses and shirts, woven is category 341 and knit is 339.

It might help if we also explain that the USDA takes the import numbers by category, and then they calculate how much cotton is in the product. If you like, we could also submit to you, Mr. Chairman, the USDA procedure. I understand it is very complex in the way the USDA calculates these numbers that we have used in our testimony.

Chairman GIBBONS. Well, I am not belittling anybody's numbers, but I would like to get talking in the same ball park with each other.

Mr. CLINE. Yes, sir.

Chairman GIBBONS. I do not have enough figures here in front of me to respond to your numbers. I cannot compare what we have been talking about.

Let me ask you, just out of curiosity, I have got on a two-piece suit here. How long does it take to sew this thing? Do you know?

Mr. SHEINKMAN. It depends on the make of that suit. I would have to look at the garment, Mr. Chairman, because if you have cheaper made garment, a worker can turn out—you have got to deal differently between the coat and the pant.

Chairman GIBBONS. Well, the whole thing. I do not want to pay for just one part of it.

Mr. SHEINKMAN. It depends on how much hand production there is, but usually they are about anywhere from—depending on the make of the garment and the quality of the garment—anywhere from 110 to 160 operations. In a better made suit, you might have turned out, the worker, an average of maybe 3 to 4 a day. In a cheaper priced suit, it might run 8 to 10 a day. So I just could not give you that.

Chairman GIBBONS. In an 8-hour day?

Mr. SHEINKMAN. Yes, sir.

Chairman GIBBONS. So you are talking about 2 hours to 45 minutes.

Mr. SHEINKMAN. Well, we have 60-minute coats. A 60-minute coat is essentially a machine operation turned to an outside coat. The pants might take another 20 minutes to 30 minutes. Then you might run to the kind of suit I am wearing, which is a better made suit, that might take up to 2 hours to 3 hours.

Chairman GIBBONS. Would you include a Southwick as being a cheap suit?

Mr. SHEINKMAN. I could not tell looking at that, sir. I did not leave any implication on you. I am just trying to use an example.

Chairman GIBBONS. Well, is a Southwick an expensive suit?

Mr. SHEINKMAN. That is a well-made suit; that is a better made suit, sir.

Chairman GIBBONS. About how many hours did it take?

Mr. SHEINKMAN. I could not tell in that particular factor, but that might be in the neighborhood of somewhere about maybe, oh, I would say in the course of a day, three a day per the average worker in terms of a coat.

In a Southwick coat, there are hand operations. That, incidentally, is made in Massachusetts.

Chairman GIBBONS. We will tell Barney Frank that.

So we are talking about, what, how much an hour?

Mr. **Sheinkman**. The average worker in our industry in that shop would be making in the neighborhood of about $7 an hour.

Chairman **Gibbons**. So $21 is what labor is in this?

Mr. **Sheinkman**. Well, you have got to take the pants. The pants and labor, and usually the rough estimate of labor in a garment is in the neighborhood of about 30 to 35 percent.

Chairman **Gibbons**. Boy, I had better check the prices from now on.

Mr. **Sheinkman**. I might say, I just came back from South America, and I watched some of the products made there. I look at products around the world. You are wearing a very well made suit at a very good price, sir.

Chairman **Gibbons**. Well, I will tell you the price I paid for it.

Mr. **Sheinkman**. I know the retail price. I do not know whether you got it retail or wholesale. I am just saying in terms of the regular price.

Chairman **Gibbons**. I got it downtown in Washington.

Mr. **Frenzel**. He bought it in 1947. [Laughter.]

Mr. **Sheinkman**. Congressman Frenzel, judging from the lapels, I would agree with you.

Chairman **Gibbons**. I think I just took the bill out of the pocket of this one.

Well, that is interesting. I appreciate your helping me, although maybe I had better do a little bargaining when I go into a clothing store from now on.

Okay. Dick?

Mr. **Schulze**. Thank you, Mr. Chairman. I appreciate the lesson in fashion.

Chairman **Gibbons**. This is not about fashion. We are just talking about cost.

Mr. **Schulze**. Well, there was a hint of fashion in there.

Gentleman, I thank you for your testimony. Something you did not allude to and which I asked about earlier—and I do not know whether you are willing or in a position to testify about is the lack of production in this country of machinery and equipment used in the textile industry. I do not know whether any of you or all of you would care to comment on that.

Mr. **Laidlaw**. This really relates to a situation from about 20 years ago. At that time there was no investment tax credit. Textile profits were not that great. Depreciation allowances were low, and the textile industry was in a poor position to reequip. And as orders from the textile industry thinned down, so the economics of production in this country deteriorated. One manufacturer after another disappeared.

It was only when the investment tax credit was allowed and better depreciation allowances came in that the textile industry could, in fact, afford to spend the money that it needed and start to reequip. But by then, very large segments of the American textile manufacturing industry had disappeared.

Mr. **Schulze**. Is not this worldwide a billion dollar industry?

Mr. **Laidlaw**. Yes.

Mr. **Schulze**. Actually, it has to be a multibillion-dollar one.

Mr. LAIDLAW. Yes, it is. But again, you are looking at situations abroad where, again, various governments granting R&D allowances are fostering local industry.

Mr. SCHULZE. Now, let me say before you go too far. I am probably going to ask you if you say things like that if you will send me the specifics, because I would love to have them. Now, that is the first time that anybody has said to me that they felt that we do not have the production of textile machinery because it was subsidized by other governments. I have heard a lot of other things—technology, engineering, advancement, willing to spend money, willing to invest it—but I have not heard government subsidy.

If you can give me information on that, I would love to have it, and if you know it. If you cannot, I would rather you not say it.

I would like to hear if you have got it.

Mr. LAIDLAW. It is very hard to determine this. My colleague made the comment today on the Japanese automated sewing development, which is a $120 million project. Incidentally, that figure was calculated when the yen was about 220 to the dollar. And half of that was a straight injection from MITI, the Ministry——

Mr. SCHULZE. Let me ask what to me is a very simple question. Marvelous, let them spend that money on development. Let them develop it. Why cannot we produce it?

Mr. LAIDLAW. If you have not had the experience of actually building the machines and running it in and going through the prototype situation, that technology, in fact, does not get developed in this country.

Mr. SCHULZE. Well, I know it does not, but we are great innovators. We developed robots. Other nations utilized them.

Now, if you are saying that we as a society just do not have either the will or the capacity to do this in reverse, then as far as I am concerned, the future is very bleak.

Mr. LAIDLAW. I think, sir, it is the lack of commitment and particularly long-term commitment. This is a subject which, in fact, is affecting all U.S. manufacturing right now. That is, that so many of our industries are judged on an immediate short-term, quarter-by-quarter profit, and that there is an incentive not to invest significant sums in research and development on the short term. Whereas, abroad there is a government attitude to foster research and development.

Many of the innovations that we are seeing that start in the United States are then taken abroad, sometimes by international companies, to complete the development and production. We are quietly giving away technology.

Mr. SCHULZE. That is right. My district is less than 3 percent unemployment. Now, we are on the cutting edge of high tech. That concerns me because other people are telling me most new developments are good for 3 months, 6 months—at the most 18 months—before they are reproduced around the world.

Are we the only ones that are going to come up with this and let other people reproduce? Are those who are successful in the textile industry today so short-sighted that they are not willing to invest some money and get into the next generation of equipment?

Mr. LAIDLAW. I think, sir, that is one of the reasons behind this bill, and that is that both textile machine manufacturers and the textile industry feel that there is some need for an assurance that the industry is going to be around in 20 years. The OTA report alludes to this; that if we cannot reinstill confidence, then by the year 2000 we may not be around to worry.

Mr. SCHULZE. I thank you.

Mr. SHEINKMAN. Congressman Schulze, I refer to the TC square in my testimony, which is the Textile Clothing Technology Corp. The machine that deals with robotics, most robotics deal with fixed items. The robotics that is being developed has the ability to sew the sleeve, and this is a result of the use of computerized machinery.

We had difficulty in trying to find an American manufacturer that would be willing to undertake the manufacturing because of the reasons you have just heard before. We finally did get the Singer sewing machine company to do it. But we had a choice of only going to about three or four companies because of the fact that so many of the American made companies have gone out of business for the reasons stated in the manufacture of this kind of equipment.

Mr. SCHULZE. Let me ask another question which really is not totally on the topic; but during the tax bill last year, I worked hard to retain some degree of investment tax credit, even going so far as the last measure that I offered which was an amendment which was 5 percent on domestically produced productive equipment, which was as narrow as I could possibly draw it.

Would some form of investment tax credit revive this industry? Or is there nothing that we can or should do to go along that trail?

Mr. LAIDLAW. I think, sir, that any steps in this direction are to be welcomed. In this regard, certainly U.S. taxation policies have been detrimental to long-term development. The elimination of capital gains in the last tax bill was another. Stretch out of depreciation allowances was another. Absence of investment credit was a third.

In the meantime, take a look at some of our competition, particularly in Japan, together with financial involvement by MITI, and you can recognize very quickly why the U.S. is not likely to remain at the front edge of developing production. It may develop the technology, but the technology quickly gets taken abroad, and sometimes by U.S.-based international companies because they can get better financial aid to further the development and the prototype and refinement abroad than they can in the United States.

Mr. SCHULZE. Is the bottom line labor costs?

Mr. LAIDLAW. Sometimes not. It can relate as much to the financial impact on the profit and loss statement of the corporation as it can to the labor costs.

Mr. SCHULZE. And taxation?

Mr. LAIDLAW. Taxation has a heavy influence on this.

Mr. SCHULZE. Do you see a day in your crystal ball where computerization and robotization will negate the effects of low wage rates?

Mr. LAIDLAW. Looking a long way out, perhaps. But there are huge sums to be spent on development of refining these production technologies. We in our particular company are also engaged in some other products besides textiles—for example, metals, miniature die castings where we have an extremely high degree of automation. Labor cost has absolutely nothing to do with the cost of production at all. We can produce as many as 700 pieces a minute per machine.

The problem there is similar to the textile industry in that the assembly operations using these castings are not fully automated, and, thus, the market for castings in the United States disappears. An example of an excellent customer that we used to have was the AT&T telephones. They have either now shut down or are shutting down their production in the United States and are moving to Singapore.

The economics of our producing in the United States and shipping it to Singapore, precludes us from competing and they are now buying the product in the Far East.

Mr. **Schulze**. Thank you, gentlemen.

Mr. **Slosberg**. May I add something, Congressman, with regard to the footwear industry?

The 5-year plan that the footwear industry came up with and presented during last year's trade bill efforts specified where investment in robotics and computerized manufacturing would reduce the wholesale price difference from approximately 16 to 18 percent between foreign and domestic shoes down to approximately five percent.

I recently had the opportunity to visit a shoe factory in the United States which has now installed robotics in the preassembly of certain component parts, where labor is being taken out of it. We ourselves have just put in, in our own plant, a computer-aided system whereby a garment manufacturer or a shoe manufacturer, in designing a new product, would transmit the data to me and I would be making the dyes for that before that product is even off of his computer screen because it is being sent to me by computer to cut down the time.

Technology, by and of itself, is a great means. It is not the whole answer, but it is a great stepping stone, but we cannot adopt the technology. We cannot make the investment unless we have a market and unless we have a profit to reinvest.

Mr. **Schulze**. I hear what you are saying and I know what you are saying, but as technology increases, does not it provide opportunities for people with venture capital—and if the incentives are there to invest—to start these kind of businesses? I know we have declined and we have gone downhill, but it seems to me when there is an opportunity for profit and when we can make a breakthrough in technology, that we open up opportunities.

Mr. **Slosberg**. Sir, last week an old line shoe machinery company—which was owned by a multinational—was bought by an investment group. I do not think that unless they felt that there was a potential for improving profits they would not have bought the firm. They sell both domestically and they sell internationally. So they know that there is investment to be made that can be a profitable return if so granted.

Mr. **Schulze**. That is good news. In fact, I would like to receive an invitation some time to come see that operation.

Mr. **Slosberg**. Yes, sir, at any time, and it will be in writing.

Mr. **Schulze**. Maybe some of the others would as well. I have taken a lot of time, but let me ask one more question.

You gentlemen know that we have recently passed H.R. 3, a trade bill. Is there anything in there that helps you or hurts you? How do you feel about H.R. 3 and are there things in there which will be of long-range benefit to you?

Mr. **Gregg**. Specifically, is there anything in there that hurts us? No, sir. H.R. 3 by itself is not going to solve our textile problem. We are trading under the MFA that has been going on for a number of years. It is the way the textiles are traded, and it does not specifically address that.

I think that what would help us dramatically is exactly what the members of the Textile Caucus talked about this morning: more strict enforcement and a level playing field.

Mr. **Roboz**. I think it does hurt us in one particular segment, and that is, it grants tariff cutting authority. I think that the last thing we need with this uneven playing field is to become even more uncompetitive.

Mr. **Schulze**. Anyone else?

[No response.]

Mr. **Schulze**. Mr. Chairman, I thank you for your indulgence. I have used more time than I should.

Chairman **Gibbons**. Mr. Guarini.

Mr. **Guarini**. Thank you, Mr. Chairman.

I would like to address Jack Sheinkman, and ask him: There is talk about technology and robots as being the way out of the problem that we are in. Of course, we know that in our country we have a higher standard of living and we are competing with countries such as China, where I have gone through textile mills and I am sure they are not being paid any more than 18 or 20 cents an hour; and we are competing with those kind of markets, as an extreme case.

We have 2 million people working in the textile industry today, I understand. What is your opinion regarding the opportunity of getting out of our huge trade deficits by robotics and high technology? And where are we going?

Mr. **Sheinkman**. I use that as an example. You have heard of Quick Response, and this is an attempt to deal with the problem.

Congressman Guarini, we are never going to compete on the basis of wages. I do not think the idea is to lower ourselves to the common denominator, and I do not think anybody in this country would ask us to lower us to 21 cents an hour as a means of livelihood. Lord knows even the minimum wage today does not provide a level of income to the poverty level; it is way below that.

The answer lies in the fact that, hopefully I am reminded once I was in the U.K., and I picked up one of these sort of like calendar-like objects which said back in the early 1900's you could shear a sheep, get it made into a textile product and made into a coat within 72 hours. Nowadays, it takes somewhere in the neighborhood from the time that the fabric is ordered to the time that the product comes off the line more in the neighborhood of 9 months.

Now, if domestic manufacturers have an opportunity not to put in letters of credit by going offshore in uncertain monetary markets, notwithstanding the fact that the major exporters from the

Far East, their currency is pegged to our dollars, but our European competitors as well where there is a differential on the difference in the rates of the currency exchange. Then if a retailer does not have to commit cash up front, that retailer has an opportunity to get a quicker response to market demand. For example, if a certain type of men's suit or ladies' garment is not doing well in the market, that retailer would have committed his or herself to a substantial sum of money. This way there is greater flexibility.

What we are trying to do is to mesh the needs of the retailer and the consumer and clearly try to meet that need by increased productivity. One of the reasons I indicated that is my union is not opposed to productivity increases. Obviously, we are concerned about the people. We want to make sure that there is an orderly displacement of workers, that it is done in a humane manner, that people are retrained possibly for other jobs, and so on.

So what I am indicating is that it is not an industry that is sitting back either our industry—and I represent and my members represent workers in the textile, apparel and shoe industry. These industries are attempting to modernize. We are not opposing that modernization. That is the reason I wanted to underscore our position.

Mr. GUARINI. Thank you. Do you foresee the day that we could get out of this big trade deficit in textiles? Is it foreseeable or would we have to live with permanent quotas, in your opinion?

Mr. SHEINKMAN. Well, nothing is permanent. Nothing in the world is permanent, but the purpose of this bill is to take a look and at least stabilize the situation. As you heard from each of my other colleagues here, instability breeds uncertainty. When you are uncertain and you are a businessman, you are not going to invest in an uncertain future.

By at least getting a handle—and there has been no handle. We thought the MFA was a handle, and I say this more in sorrow than in anger. It has not worked that way. The MFA was supposed to provide for orderly growth rates, and the growth rates, as I indicated earlier in my initial presentation, of imports has been growing at 17 percent, compounded. And when you have got this kind of situation, you have uncertainty. Uncertainty means bad business and means bad for the worker.

We live in a system where our workers are tied to the welfare of the industry. Hopefully, with this bill, which would limit growth in the domestic market of one percent a year worldwide, there will be an opportunity to stabilize the situation. There will be attrition. New technology before us will mean a displacement of workers.

Mr. GUARINI. Well, let me ask you, do you think the trade bill was in the right direction for your industry in regard to workers' rights and the Gephardt amendment where we had large trade surpluses that will be phased down and subsidies and other sections that were addressed in a bill? Will that be of much help to you?

Mr. SHEINKMAN. We represent workers in a multiplicity of industries. In terms of the textile, apparel and shoe industry, that is not the answer. The workers' rights, obviously, is important. That is a measure.

I recently had a meeting in South America with my colleagues from around all of South America and North America. I was talking to the Chilean representative of the textile workers there, and he was telling me about some of the problems he faced: a young labor leader who spent 3 months to 4 months, virtually, out of every year in jail for trade union activities. And if this kind of activity continued, there would be a way of limiting imports. But Chile is not a major exporter now of textile and apparel to the United States.

It would help in setting the standards. We support the Gephardt bill, but the Gephardt bill does not meet the needs of the industry or the workers in the textile, apparel and shoe industry. It meets the needs of workers in other industries that we represent such as Xerox workers, but workers in other industries that we happen to represent. But they are not the bulk of the people.

Mr. GUARINI. Does the proposed minimum wage have any effect on your industry?

Mr. SHEINKMAN. Oh, the proposed minimum wage, in terms of employment you are talking about?

Mr. GUARINI. Yes.

Mr. SHEINKMAN. No, it would have no—according to our calculations—

Mr. GUARINI. Or price of American made goods? Does it impact on your industry at all, the minimum wage?

Mr. SHEINKMAN. I do not think it would, sir. In terms of the price of the goods coming out?

Mr. GUARINI. Right.

Mr. SHEINKMAN. Well, I do not think so. You know, maybe some of my colleagues here would disagree, and I will be glad to testify and am prepared to testify in another setting on that issue. But in our judgment, increased wages do not necessarily mean nonproductive operations or low costs or higher costs.

I have seen plants with low average wages in the factory that are not productive, that it costs more proportionally to produce a garment, let us say, than a company that has higher wages that is more productive.

You know, when you are forced to raise your wage level, it tends to force the management to be more efficient to deal with the problem, and also forces, in some cases, new technology to come in. But technology will move apace whether you put the minimum wage up or do not put the minimum wage up, and that is not the crucial issue.

Mr. GUARINI. Thank you, Jack. Let me ask Mr. Gregg concerning the GATT. Has your industry communicated with our negotiators and are any efforts that the industry has made to get a better deal with the GATT multilateral agreement that is now being negotiated by the USTR?

Mr. GREGG. Just one second, please.

[Pause.]

Mr. GREGG. I wanted to doublecheck and make sure. We have been in communication, sir, and I think that our great concern as a result of those communications is that this is going to lead to further textile and apparel tariff reductions.

Mr. GUARINI. But there are subsidies that will be discussed which other countries may be giving to their industries and intellectual property rights and various items that would impact and would have some effect on the textile industry that we have here, and there are some positive things that could be done at the GATT negotiations for the textile industry. I was just wondering whether or not your industry has taken any steps to initiate contact with our GATT negotiators.

Mr. **Sheinkman**. I would like to make a comment.

Mr. **Guarini**. Yes, Jack.

Mr. **Sheinkman**. At the rate that the GATT agreement will be negotiated, we will be lucky if it is negotiated within four to five years.

Mr. **Guarini**. Well, I agree with that.

Mr. **Sheinkman**. We are mortally wounded, Congressman. We cannot wait for that transfusion 4 or 5 years, if it ever comes under the GATT arrangement.

Mr. **Guarini**. I agree that GATT will probably take 7 years, because the Kennedy round and Tokyo round each took that long, and these are more complicated proceedings than we have had before. But it does not mean that we should not attack every part of the problem, because the sooner that we get away from quotas and we can stand on our own as an industry and have fairer trading practices initiated and less subsidies and correct intellectual property right question, the better the textile industry would be. And I am sure that is what you want to have happen.

Mr. **Sheinkman**. I am not dealing in an academic realm, Congressman.

Mr. **Guarini**. That is not academics. That is the real world.

Mr. **Sheinkman**. You look at the whole thing. Seven to eight years from now would bring us into 1995. By then this industry will never get off the ground.

Mr. **Guarini**. Well, Mr. Gibbons will be wearing the same pair of shoes by that time. No, I understand what you say, and I have made that point many times. But I do think it is helpful to get your innings in when all the nations of the world are sitting at the table and discussing these kinds of problems because they are not affected by GATT.

Mr. **Sheinkman**. We will support those changes, but one thing has nothing to do with the other. That may help us by the time we are dead. And when we are dead, I do not expect to be resurrected.

Mr. **Guarini**. Jack, I agree with you, but what I am saying—and I know that there are more than one attack to the problem—but what I am trying to get across is that there is no reason why the industry, the textile and footwear industry should not get fair trading practices, because in the long run, what we do and say in the rules with our other trading partners are very important to the industry.

Mr. **Sheinkman**. I am not arguing with you.

Mr. **Guarini**. OK.

Mr. **Sheinkman**. I just feel that your role on the overall trade bill is to be commended.

Mr. **Guarini**. Thank you. I am a sponsor of the bill.

Mr. **Sheinkman**. I know that.

Mr. **Guarini**. So I am not arguing against it. I am just trying to make a point.

Mr. GREGG. I would say this, sir. We do participate in the advisory process on the GATT talks through the ISAC's and I think we are trying to shape those.

Mr. SLOSBERG. Congressman, if I may interject one more thing. To show the effectiveness of this, of these multilateral agreements, a subsidies code was enacted with Brazil which they then violated and nothing has been done. And I have to agree with Mr. Sheinkman; we may be dead before this will ever happen again. And I do not know how we can be resurrected under it. The effect of bilateral agreements has not been that good. The results have been less than satisfactory for American industry.

Mr. GUARINI. We know our markets have been open to the world and they have been closed to our products, so we have not had access to their products. And, of course, we have got to attack every phase of the problem. We have H.R. 1154 before us now, but I would like to see as much activity and input that you can give our U.S. Trade Representative and his negotiations because there is a long run out there.

Mr. SLOSBERG. I also serve on the industry Sector Advisory Committee with the Department of Commerce on that, and the leather and footwear industry does give a tremendous amount of input. Whether it is utilized or not is something else.

Mr. GUARINI. Okay. Thank you very much, gentlemen. Good luck to you all.

Chairman GIBBONS. I thank you, gentlemen. We just have run into a vote, and Mr. Frenzel asked me to say he was sorry he did not get a chance to examine you. Perhaps we will meet again sometime along the road, and we look forward to your working with our staff so that we can get these figures straightened out.

Thank you very much.

Let me say we are going next to the Retail Industry Trade Action Coalition and the Footwear Retailers and the National Shoe Retailers as soon as I can get back from voting.

Mr. Smart of the Department of Commerce has been rescheduled for our next meeting.

[Recess.]

Chairman GIBBONS. We have our last panel for the day. Since they are at the table, I will just allow them to go ahead and introduce themselves as they come up.

Mr. Gould, I think you are the first on my list.

STATEMENT OF W. THOMAS GOULD, PRESIDENT AND CHIEF OPERATING OFFICER, YOUNKERS INC., DES MOINES, IA, ON BEHALF OF THE RETAIL INDUSTRY TRADE ACTION COALITION, ACCOMPANIED BY FRANK R. SAMOLIS, COUNSEL AND TOM EMRICH, ECONOMIST

Mr. GOULD. Mr. Chairman and members of the subcommittee, good afternoon. I am Tom Gould, president and chief executive officer of Younkers Inc., a 37-unit department store company located in the Midwest. I appear today on behalf of the Retail Industry Trade Action Coalition and am accompanied by Frank R. Samolis of Patton, Boggs & Blow, counsel to RITAC. We appreciate this opportunity to express our opposition to H.R. 1154, the Textile and Apparel Trade Act of 1987.

I understand that my statement will appear in the hearing record.

Chairman GIBBONS. Yes, sir; in full.

Mr. GOULD. I, therefore, will briefly summarize my remarks. I ask unanimous consent that five charts appended to my written testimony be also included in the record.

Chairman GIBBONS. Without objection, so ordered.

Mr. GOULD. Younkers operates in the heartland of America, competing in markets devastated by the farm crisis. We think it is important for you to understand how we try to service our customers and the damaging impact this legislation would have on us, our customers, and the retail community generally.

Before discussing our principal objections to the bill, let me emphasize that we are not urging the dismantling of all existing protection for the domestic textile and apparel industry. Far from it. Instead, we are seeking a balance between the needs of the industry and of our customers.

As you know, the domestic industry is the only sector which enjoys the protection of an international agreement, the MFA, and 39 bilateral agreements that regulate and restrict imports to a degree unmatched in any other sector. The industry also enjoys the highest average tariffs on imports. We are not urging elimination of these barriers to trade, but we do seek a candid assessment of the industry's present economic condition and its purported need for further relief.

At the beginning of the 99th Congress, the domestic textile and apparel industry repeatedly asserted that it would be extinct by 1990 if H.R. 1562, the prior textile quota bill, were not enacted into law. We are at the halfway point, but the industry shows no signs of dying. We hope you will come to recognize that its obituary was printed prematurely. As chart No. 1 shows, employment is holding steady, and the last three charts graphically demonstrate how healthy the industry is.

I want to emphasize four points today. First, retailing is a highly competitive sector of our economy whose survival depends on meeting our customers' demands and needs. To remain competitive, retailers must find merchandise that offers value to American consumers at a price that they can afford to pay. We prefer domestically produced goods to imports, but because we also need access to foreign merchandise to survive, we are committed to an open and expanding international trade system. Enactment of H.R. 1154 would undermine our efforts to accomplish that objective.

Second, this Draconian legislation would hurt retailers, our employees, our customers, and the nation as a whole. Enacting H.R. 1154 would raise consumer costs by an additional $10 billion per year over the billions consumers already pay annually in hidden textile and apparel taxes, force 52,000 retailers out of work while saving 47,000 textile and apparel workers' jobs at a cost to the consumer annually of approximately $223,000 per job protected, dramatically decrease the selection and variety of merchandise available in retail stores, and invite retaliation against U.S. exports, principally agricultural imports. And we know that the farmer is today in a state of crisis.

This bill is fundamentally flawed. It is not a modest measure. It ought to be rejected. This legislation will create havoc within the retailing community by totally disrupting our ability to follow changes in market demand. The domestic apparel market is consumer driven. Consumers, not retailers, ultimately determine what sells and what stays on the shelf.

Moreover, the market is subject to constant change, with some segments growing dramatically while others stagnate or even decline. Retailers must anticipate the market's direction, even as we try to influence its course through a variety of merchandising practices.

The legislation would dramatically limit consumer choice, the lifeblood of American retailing, and impose enormous added costs on the American consumer. Because foreign producers would upgrade their product mix in each individual category by selling those items that yielded the highest return, retailers would be forced to buy domestic merchandise at higher prices for equivalent quality and styling, where available, to fill out our product lines. The ability to offer a unique product line, crucial in retailing, would be severely circumscribed.

Let me give you a specific example of how this legislation would hurt us. Had H.R. 1154 been in effect in 1980, we would have been denied almost 90 percent of the increase in sweater imports between 1980 and 1985. Domestic manufacturers could not have filled the void. Their own production was already expanding at an extraordinary rate in the hottest part of the market—cotton sweaters. In fact, output increased more than tenfold between 1980 and 1985. Yet the industry would force us to live within its artificially established one percent growth limitation.

Chart No. 2 shows how artificial this constraint is and how adversely it would affect us.

Point No. 3. Given the vibrant health of the textile and apparel industry and the unparalleled level of protection it already enjoys, further relief from legitimate import competition is unnecessary. As measured by a wide variety of indicators, the industry is doing very well.

For example, aggregate earnings for the textile industry more than doubled in the third quarter of 1986 over the same period in 1985. As chart No. 3 shows, the textile industry to date is earning a pretax return on equity in excess of 25 percent. We as retailers should be doing so well.

Now, if you will look at chart No. 4, you will see that aggregate textile industry output is expanding, not contracting, and has far outdistanced the growth in manufacturing generally in the past two years. Moreover, as chart No. 5 demonstrates, the industry's overall rate of capacity utilization has reached 95 percent in the final quarter of 1986, the highest level recorded in 20 years. Industry employment, in the meantime, has remained stable since early 1985, with the major textile state economies continuing to outdistance the Nation overall in creating new jobs while maintaining lower than average rates of unemployment. In short, notwithstanding increased imports, the industry is prospering.

Finally, we commend the subcommittee for the pivotal role it played in producing H.R. 3, the omnibus trade bill. As you may recall, RITAC was invited to appear on behalf of the entire business community at the committee's opening hearings this year on trade reform. At that time, we urged you to produce positive trade legislation that did not provide sector- or country-specific relief from import competition. Enactment of the textile quota bill will not only undermine your accomplishment, but will jeopardize the multilateral talks in the GATT that are finally underway.

Conclusion: The ink has not yet dried on the omnibus trade bill, but you are already being asked to provide further, specific relief for a selected industry, the same one which only last year obtained an extended renewal of the MFA. Your massive overhaul of the U.S. trade laws apparently is not enough for the domestic textile and apparel industry. It does not want more and tougher tools; it wants the market for itself, without having to play by the rules.

Mr. Chairman, American retailers support a strong, viable domestic textile and apparel industry. By any measure, the industry already is strong and viable. If Congress imposes global restraints for an industry that is enjoying very high production levels and healthy profits and running at virtually full operating capacity, how do you respond to all the U.S. industries that fall short of such robust economic health and wonder why they are not provided with across-the-board import quotas? The textile industry's latest quota bill is simply a cleverly disguised measure to capture the domestic market through legislative fiat. For the sake of retailers, millions of retail employees, and a nation of retail customers, RITAC urges you not to report out this legislation.

Thank you, sir.

[The statement of Mr. Gould follows:]

STATEMENT OF W. THOMAS GOULD, PRESIDENT AND CHIEF OPERATING OFFICER, YOUNKERS, INC., ON BEHALF OF THE RETAIL INDUSTRY TRADE ACTION COALITION (RITAC)

Mr. Chairman and Members of the Subcommittee,

I am Tom Gould, President and Chief Operating Officer of Younkers, Inc., a 37-unit department store company located in the Midwest and headquartered in Des Moines, Iowa. I am a Member of the Board of Directors of the American Retail Federation and the National Retail Merchants Association and appear today on behalf of the Retail Industry Trade Action Coalition. RITAC is composed of 50 large and small retail companies and 6 retail associations, whose member companies employ over one million Americans, with stores in all 50 states. I am accompanied by Frank R. Samolis of Patton, Boggs & Blow, counsel to RITAC. We appreciate your providing us with this opportunity to express our opposition to H.R. 1154, the Textile and Apparel Trade Act of 1987.

I speak to you as a medium-size retailer. Younkers operates in the heartland of America, competing in markets devastated by the farm crisis. We think it's important for you to understand how we try to service our customers and the damaging impact which this legislation would have on us, our customers, and the retail community generally.

I will emphasize four points today. First, retailing is a vital and highly competitive sector of our economy whose survival depends upon meeting our customers' demands and needs. Second, in addition to hurting retailers and our customers, enactment of this draconian legislation would invite retaliation, violate our international obligations under the Multifiber Arrangement and the bilateral textile agreements negotiated pursuant to it, and undermine our nation's efforts to secure a more open trading system for U.S. exporters. Third, given the vibrant health of the textile and apparel industry and the unparalleled level of protection it already enjoys, further relief from legitimate import competition is unnecessary. Finally, enactment of the legislation would undermine the Subcommittee's commendable efforts to produce positive trade legislation and the Administration's ongoing efforts to accomplish our overall objective of expanding world trade through the Uruguay Round of GATT multilateral trade negotiations. In short, enactment of this legislation would be disastrous for the economy and the world trading system. We therefore urge you to reject the bill.

Before addressing these points in detail, let me emphasize that we are not urging the dismantling of all existing protection for the domestic textile and apparel industry. Far from it. Instead, we are seeking a balance between the needs of the industry and the needs of our customers. As you know, the domestic industry is the only sector which enjoys the protection of an international agreement--the Multifiber Arrangement--that is an exception to the normal trading rules of the General Agreement on Tariffs and Trade. Under the MFA, a series of 39 bilateral agreements regulates and restricts imports to a degree unmatched in any other sector. The industry also enjoys the highest average tariffs on imports. We are not urging elimination of these barriers to trade, but we do seek a candid assessment of the industry's condition and its purported need for additional relief over and above the extensive levels of existing protection.

Throughout the 99th Congress, the domestic textile and apparel industry repeatedly asserted that it would be extinct by 1990 if H.R. 1562 (the predecessor to H.R. 1154) were not enacted into law. We are now halfway to doomsday, but the industry shows no signs of dying. Indeed, it is thriving, outperforming nearly all other manufacturing sectors. We hope you'll come to recognize that its autobiographical obituary was printed prematurely.

I. AN OVERVIEW OF RETAILING

Retailers are a major industry in the country, employing 16 million people or roughly 15 percent of the American workforce. Our annual sales of over one trillion dollars constitute a third of the nation's gross national product. Because we make a substantial contribution to the health of the economy, retailers have a major stake in the formulation of U.S. trade policy.

We in retailing have much in common with you in the Congress. Our customers are your constituents, and when they are unemployed, we suffer. We don't look at unemployed Americans as mere statistics. We see a loss of livelihoods and the lifeblood of our communities. We see our customers without work, without a chance to maintain a lifestyle developed through a lifetime of hard work. When their towns and communities are depressed, we feel the consequences. Like you, we share the goal of ensuring that they have jobs and that their communities thrive.

Last year, we at Younkers created an Agricultural Scholarship Trust Fund to help defray the educational expenses of our hard-hit customers. We donated 10 percent of our sales and solicited requests from others in the community. With $307,000 in the fund, we awarded the first 25 scholarships. We think this type of program is essential to rebuilding our community.

To remain competitive and to keep our own people employed, retailers must find merchandise that offers value to American consumers, at a price they can afford to pay. We prefer domestically produced goods to imports, but when domestic sources of supply are unavailable, overseas manufacturers often help us meet customer demand.

Because we need access to foreign merchandise to survive in our highly competitive industry, we are committed to an open and expanding international trade system. We must maintain America's commitment to expanded trade to nurture the health of the world trading system. Enactment of H.R. 1154 would undermine our efforts to accomplish that objective.

II. ANALYSIS OF THE LEGISLATION

The Textile and Apparel Trade Act of 1987 would restrict U.S. textile and apparel imports to 1986 levels plus a mere 1 percent growth thereafter on a category-by-category basis. Additionally, it would freeze nonrubber footwear imports at 1986 levels. The bill also would--for the first time--subject the exports of Canada and the European Community to quotas. If enacted, it would:

- raise consumer costs by an additional $10 billion per year over the billions consumers already pay annually in hidden textile and apparel taxes;
- force 52,000 retailers out of work, while "saving" 47,000 textile and apparel worker jobs, at a cost to consumers of $223,000 per job protected;
- dramatically decrease the selection and variety of merchandise available in retail stores; and
- invite retaliation against U.S. exports, principally agricultural exports.

The bill is fundamentally flawed. It is not a "modest" measure. It ought to be rejected.

1. Increased consumer costs. This legislation would impose substantially higher costs on consumers--our customers and your constituents--at a time when they already are burdened with billions of dollars in hidden textile and apparel taxes. Based on an analysis prepared by the International Business and Economic Research Corporation (IBERC), we estimate that this legislation initially will increase consumer costs by $10 billion annually. By 1996, when the first official evaluation of the legislation is required, consumers will have paid an additional $88 billion for textile and apparel products.

The additional costs would fall disproportionately on our lower- and middle-class customers, who are least able to afford significant price increases. Given the hidden textile and apparel taxes they already are forced to pay, they should not be burdened with an additional tax on basic necessities.

2. Job losses. Does anyone "gain" from this legislation? According to the IBERC study, the additional import restraints would "save" roughly 47,000 textile and apparel workers jobs. However, as retail sales fall due to higher prices and reduced selection, 52,000 Americans will be forced out of work. Not only would this result in a net national loss of some 5,000 jobs, but each job saved would cost consumers a staggering $223,000.

In 1985, Members of Congress were told by FFACT that "if import penetration of U.S. markets continues, hundreds of thousands more workers will be laid off or more likely terminated because of plant closings" (FFACT press release, dated March 19, 1985). Imports have since risen to meet expanding domestic demand. The industry, however, has not been devastated. In fact, textile worker employment has increased, while apparel jobs have decreased only marginally (see Chart 1 attached to my testimony). Now the Subcommittee is being asked to force 52,000 retailers out of work, simply to provide jobs to the domestic textile and apparel industry.

These job losses would be felt nationally. As one would expect, labor in three southern states (North Carolina, South Carolina, and Georgia) would be the prime beneficiaries of the additional quotas. Yet, these states have been enjoying gains in manufacturing employment, including increased textile and apparel employment, since 1985, as shown in Table 1 below. Moreover, the unemployment rate in these states is well below the national average. Workers in other states should not be forced out of work simply to increase employment opportunities in these states.

Table 1

Employment Trends in the Major Southern
Textile Producing States, 1985-1987
(Employees In Thousands)

	Year		Month of February		
	1985	1986	1985	1986	1987
North Carolina					
Manufacturing Employment	828.6	831.9	826.1	828.0	835.2
Textile Industry Employment	208.3	211.3	209.1	209.3	215.3
Apparel Industry Employment	86.7	88.9	86.2	87.9	89.4
State Unemployment Rate (%)	5.4	5.3	6.7	5.7	5.6
South Carolina					
Manufacturing Employment	365.4	364.0	367.3	363.4	364.0
Textile Industry Employment	105.0	103.2	106.3	103.8	103.6
Apparel Industry Employment	44.6	45.0	44.8	45.1	45.3
State Unemployment Rate (%)	6.8	6.2	7.5	6.8	6.3

Georgia					
Manufacturing Employment	557.1	564.6	548.3	563.6	564.4
Textile Industry Employment	100.8	103.0	101.1	101.9	104.9
Apparel Industry Employment	70.4	69.8	70.9	70.1	69.2
State Unemployment Rate (%)	6.5	5.9	6.8	6.3	5.8
National Unemployment Rate (Civilian Workforce %)	7.2	7.0	7.3	7.0	6.7

Source: Bureau of Labor Statistics

3. Decrease in selection available to customers. The additional restrictions being proposed would cut trade dramatically. As a result of a substantial decrease in imports, retailers, their customers, and the country will be hurt in a variety of ways. First, many of the products our customers currently demand simply will not be available. Domestic manufacturers either cannot or will not fill this need. The availability of children's wear and budget department items in particular will be substantially reduced, if not eliminated.

Second, as foreign manufacturers change their product mix to adjust to the new quota limits, they will increasingly concentrate on producing higher priced items to garner the higher profits on the limited number of products they can export. As a result, many lower-priced items simply will not be available and those items that will be available in retail stores will be too expensive for persons on a limited budget.

Finally, reduced supply and corresponding higher prices will generate inflationary pressures. In the past year alone, import prices have increased substantially as the market has felt the force of increased quota restrictions, the fall in the value of the dollar, and overall growth in demand. Enactment of H.R. 1154 would only compound the problem and exacerbate the alarming trend evident in Table 2 below.

Table 2

U.S. Import Price Indexes:
Percentage Change In Prices Between
March 1986 and March 1987

Clothing	+9.1%
Knitted Sweaters	+17.1%
Textiles	+5.8%
Cotton Fabrics	+9.0%
Manmade Fiber Fabrics	+10.1%

Source: U.S. Department of Labor, Bureau of Labor Statistics, U.S. Import and Export Price Indexes - First Quarter 1987.

4. Retaliation. Enactment of the legislation would provoke retaliation against our exports, in particular agricultural exports. As the Subcommittee knows, the European Community already has indicated that it will retaliate. This would be particularly devastating to farm families in the Midwest, the very people my company serves. Agriculture already has paid a heavy price for textile protection. In 1983, for example, the textile bilateral agreement between the United States and China lapsed as a result of our government's attempt to freeze China's share of our domestic market. China shifted its source of grain purchases, costing our farmers an estimated $500 million in lost sales.

Agricultural exports have always been the first to feel the sting of retaliation. In addition, some of our most sensitive and competitive exporters--like those in the high tech industry--also would be hurt. It simply makes no sense to add yet another layer of protection for the domestic textile and apparel industry at the expense of U.S. farmers and other export-dependent Americans.

5. Flawed legislation. While described as "modest," this legislation will create havoc within the retailing community by totally disrupting retailers' ability to follow changes in market demand. In addition to the 1 percent limitation on growth, the bill also provides the Secretary of Commerce with authority to prescribe regulations to enforce the Act, including rules to ensure the "reasonable spacing of imports over [each] calendar year." Like the licensing provision in H.R. 1562, this requirement--if it could be administered--would unnecessarily complicate the importing process and impose additional costs.

By mandating global quotas, the legislation also would bring products from Canada and the European Community under tight control. Their exports to the United States are confined largely to yarns and fabrics (about two-thirds of total trade in 1986) purchased by U.S. textile and apparel manufacturers for further processing in the United States. Their trade in finished apparel is of little consequence, accounting for just 3.5 percent of total apparel imported from all sources in 1986.

The legislation would leave the Administration with the delicate task of allocating quota rights among our trading partners. It would be forced either to breach the terms of existing bilateral agreements with many smaller developing country suppliers by reducing annual growth to 1 percent (destroying the MFA in the process) or to grant newly controlled suppliers such as the European Community and Canada less than 1 percent growth. In the past, retailers could react to new controls on a given country's trade by seeking new sources of supply. No longer. This would become a zero-sum game. If one country is allowed to grow by more than 1 percent, another country's growth must be reduced by an offsetting amount.

Finally, since the bill provides for only a 10 percent reduction in tariffs--not a 10 percentage point reduction--the "compensation" being provided is virtually meaningless, particularly when staged over 5 years. With textile and apparel tariffs averaging 19 percent, they would be reduced to only about 17 percent, still roughly 4 times higher than the average duty on all other imported products. Moreover, textiles and footwear would presumably be forever barred from being the subject of tariff negotiations except as provided in this bill.

6. Immediate Impact on Retailers and Consumers. The domestic apparel market is consumer driven. This means that the consumer, not the retailer, ultimately determines what sells and what stays on the shelf. It also means that the market is subject to constant change, with some segments growing rapidly while others stagnate or even decline. Retailers must anticipate the market's direction, even as they try to influence its course through a variety of merchandising practices.

If enacted, H.R. 1154 would severely disrupt this process. The industry's assertion that limiting import growth to 1 percent simply places imports and domestic manufacturers on a common footing is patently false. The 1 percent growth rate is substantially below actual long-term growth of 2 to 3 percent in the U.S. market, as shown below in Table 3[1/]. During the economic expansion that began in 1982, total textile fiber consumption has actually been growing at a rate approaching 10 percent annually. More important, long-term growth rates are of little consequence to retailers trying to keep up with this surge in demand.

Table 3

Compound Annual Growth In Total
U.S. Textile and Apparel Consumption

Period	Rate of Growth
1970-1986	2.76%
1975-1986	3.41%
1980-1986	4.92%
1982-1986	9.88%

Source: Textile Organon

The proposed legislation would go beyond just "fixing" the U.S. market for domestic manufacturers by guaranteeing them the same share of consumption in future years that prevailed in 1986--by itself an idea that is totally antithetical to our free market economic system. The data in Table 4 show consumption in most apparel sectors expanding at a rapid pace in the 1980s. The legislation would actually grant domestic manufacturers an increasing share of the market over time in any product category where growth in consumption exceeds one percent (see Chart 2). In other words, this legislation would force retailers to buy an increasing share of their overall product mix domestically, regardless of whether it made sense from a merchandising standpoint.

Table 4

Annual Average Compound Growth in Domestic Apparel
Consumption, By Major Product Sector, 1980-1985

Gloves & Mittens	3.5%	Shirts	10.6%
Hosiery	2.1%	Suits	-1.9%
Mens & Boys Suits Type Coats	4.2%	Sweaters	6.5%
Mens & Boys Other Coats	1.0%	Trousers, Slacks & Shorts	3.6%
Women's, Girls & Infants Coats	4.2%	Body Supporting Garments	0.1%
Dresses	0.5%	Dressing Gowns & Robes	2.3%
Playsuits	0.8%	Pajamas	0.9%
Shirts & Blouses	3.1%	Underwear	2.1%

Source: U.S. Department of Commerce, U.S. Apparel Production, Imports and Import/Production Ratios, August 29, 1986.

[1/] The domestic industry's 1 percent growth factor appears to have been derived by comparing consumption in 1973 (a period of peak demand that was not surpassed again until 1978) with consumption in 1985 (a midpoint in the current expansion).

The legislation would dramatically limit consumer choice, the lifeblood of American retailing, and impose enormous added costs on the American consumer. Because foreign producers would upgrade their product mix in each individual category by selling those items that yielded the highest return, retailers would be forced to buy domestic merchandise at higher prices for equivalent quality and styling (where available) to fill out product lines. The ability to offer a unique product line, crucial in retailing, would be severely circumscribed.

To show this, let's look at the growth in demand for sweaters since 1980 and see what impact this legislation would have had on retailers and their customers. Total domestic sweater consumption (of cotton, wool, and manmade fibers) increased by 6.5 percent annually between 1980 and 1985--domestic production increased by 5.7 percent on average, while imports rose 7.0 percent. As shown in Table 5, growth rates varied considerably, ranging from negative growth in women's wool sweaters to a positive rate approaching 50 percent in women's cotton sweaters.

Table 5

Annual Average Change in Domestic
Sweater Consumption 1980-1985

All Sweaters	6.5%
Cotton Sweaters	
Men's and Boys'	34.7%
Women's, Girls' & Infants'	49.9%
Wool Sweaters	
Men's & Boys'	11.3%
Women's, Girls' & Infants'	-0.9%
Manmade Fiber Sweaters	
Men's & Boys'	No change
Women's, Girls' & Infants'	2.3%

Source: U.S. Department of Commerce, U.S. Apparel Production, Imports and Import/Production Ratios, August 29, 1986.

Had H.R. 1154 been in effect in 1980, almost 90 percent of the increase in sweater imports between 1980 and 1985 would have been denied to retailers because of the 1 percent annual growth limitation. Domestic manufacturers could not have filled the void. Their own production was already expanding at an extraordinary rate in the hottest part of the market, cotton sweaters. In fact, as shown in Table 6, output increased more than 10 fold between 1980 and 1985.

Table 6

U.S. Production, Imports and Consumption
of Cotton Sweaters, 1980-1985
(Thousands of Dozens)

Year	Production	Imports	Consumption
1980	423	507	930
1981	950	474	1,424
1982	1,471	742	2,213
1983	2,033	839	2,872
1984	3,095	1,263	4,358
1985	4,723	1,726	6,449

Source: U.S. Department of Commerce, U.S. Apparel Production, Imports and Import/Production Ratios, August 29, 1986.

Import growth in cotton sweater categories was already circumscribed by existing bilateral agreements with major suppliers under the MFA. The pressures on supply generated by tremendous market demand for women's cotton sweaters were relieved in part by the development of the ramie/cotton sweater market. Had controls been in place to restrict growth in these imports, retailers would have been unable to satisfy a large part of domestic market demand for sweaters. Further shifts to domestic sources would have been unrealistic given the cost structure and manufacturing base of domestic producers. As a result, retailers and consumers would have been the losers.

During the period 1980-1985, the price of imported sweaters would have been, on average, 22 percent higher had the 1 percent import growth limitation been in effect. Domestic sweater prices probably would have risen by at least an average of 38 percent (source: IBERC). Additionally, retail sales of sweaters would have been reduced each year between 1982 and 1985. Domestic producers would not have been able to make up for all of the decline in imports. Yet, the domestic industry now seeks to increase such contraints irrespective of the harm its "modest" bill would impose on retailers, their employees, and their customers.

III. MORE HELP FOR A HEALTHY INDUSTRY?

Upon introduction of H.R. 1562 in the 99th Congress, we were told that "[i]f [Congress does] not act now to curb imports, in five years our entire industry and four million jobs that depend on it will simply cease to exist" (FFACT press release, March 19, 1985). Nothwithstanding this dire prediction, the industry is prospering. This year's pleas for protection should be assessed in light of the industry's current economic performance.

The domestic textile and apparel industry is doing very well, as measured by a wide variety of indicators. For example, aggregate earnings for the textile industry more than doubled in the 3rd quarter of 1986 over the same period in 1985 (see Chart 3). Aggregate textile industry output reached its highest point ever in the fourth quarter of 1986 (see Chart 4). The industry's overall rate of capacity utilization reached 95 percent in the final quarter of 1986, the highest level recorded in 20 years (see Chart 5). Moreover, as I noted above, industry employment has remained stable since early 1985, with the major textile state economies continuing to outdistance the nation overall in creating new jobs while maintaining lower than average rates of unemployment (see Table No. 1). Imports in general have largely captured incremental growth in demand, without cutting deeply into the existing manufacturing base. In short, notwithstanding increased imports, the industry is prospering.

IV. AMERICAN COMMITMENT TO EXPANDING WORLD TRADE

As retailers, we vitally depend on the health of the world trading system. Our customers rely on the output of other nations. We must not take the easy route and blame all of our ills on foreigners. Along with the Administration, Congress must work to establish a world trading environment in which export opportunities increase for all.

We commend the Subcommittee, and the full Committee as well, for producing an omnibus trade bill that furthers this goal. As you may recall, RITAC was invited to appear on behalf of the entire business community at the Committee's opening hearing this year on trade reform. At that time, we urged you to produce positive trade legislation that did not provide sector- or country-specific relief from import competition. Enactment of the textile quota bill not only would undermine your accomplishment, but would jeopardize the multilateral trade talks that are now finally underway.

The Uruguay Round will be critical for sustaining the historic American-led effort to liberalize world trade. As important, it will provide us with an opportunity to develop new rules to govern trade in services and investment, to protect and foster exchanges of intellectual property, and thus to promote our overall effort to expand world markets. Only through strengthening the multilateral system can we address systemic causes of trade problems and develop adjustment mechanisms to avoid the trade imbalances that currently distort trade. Just as all past multilateral negotiations succeeded only as a result of U.S. leadership, so too can the Uruguay Round accomplish these vaunted objectives only with American support and guidance.

In the process of expanding world trade, we recognize that the United States economy will undergo profound changes. This has been occurring steadily since the end of World War II. As new industries develop and prosper, others will decline. We support a healthy domestic textile and apparel industry and hope it will undertake the measures necessary to survive. Further protection, however, is not the answer.

The Administration obviously shares our goal of preserving a viable domestic industry. In our view, it has perhaps gone too far in its efforts to assist the domestic textile and apparel industry adjust to competition. In 1986 alone, it negotiated or imposed over 200 quotas. It renegotiated a significantly tougher MFA to cover virtually all textile and apparel products. Moreover, it renegotiated existing bilateral agreements with Korea, Taiwan, Japan, and Hong Kong, four of our largest suppliers, to restrict imports of these products to less than 1 percent growth per year. It is at present renegotiating the bilateral agreement with the last of our largest suppliers, China. These efforts, coupled with existing restrictions and very high tariffs, has ensured that the domestic industry remains the most protected sector of our economy. Congress need not provide any further relief.

CONCLUSION

The ink has not yet dried on the omnibus trade bill, but you already are being asked to provide further, special relief for a selected industry, the same one which only last year obtained an extended renewal of the MFA. Your massive overhaul of the U.S. trade laws apparently is not enough for the domestic textile and apparel industry. It doesn't want more and tougher tools; it wants the market for itself, without having to play by the rules. Mr. Chairman, as the Members of this Subcommittee analyze this legislation, we hope that you will keep some fundamental policy questions in mind.

First, do you wish to sanction arbitrary and unilateral trade restraints designed to stifle growth and competition? Like its predecessor (H.R. 1562), the proposed bill is much more than a mere "enforcement" measure designed to advance the purposes of the Multifiber Arrangement. It is inconsistent with and contrary to the MFA and, if enacted, would have far-reaching effects totally at odds with our country's free market system. It is an extreme proposal which would radically alter the extensive regulatory system now in place to restrict textile and apparel imports.

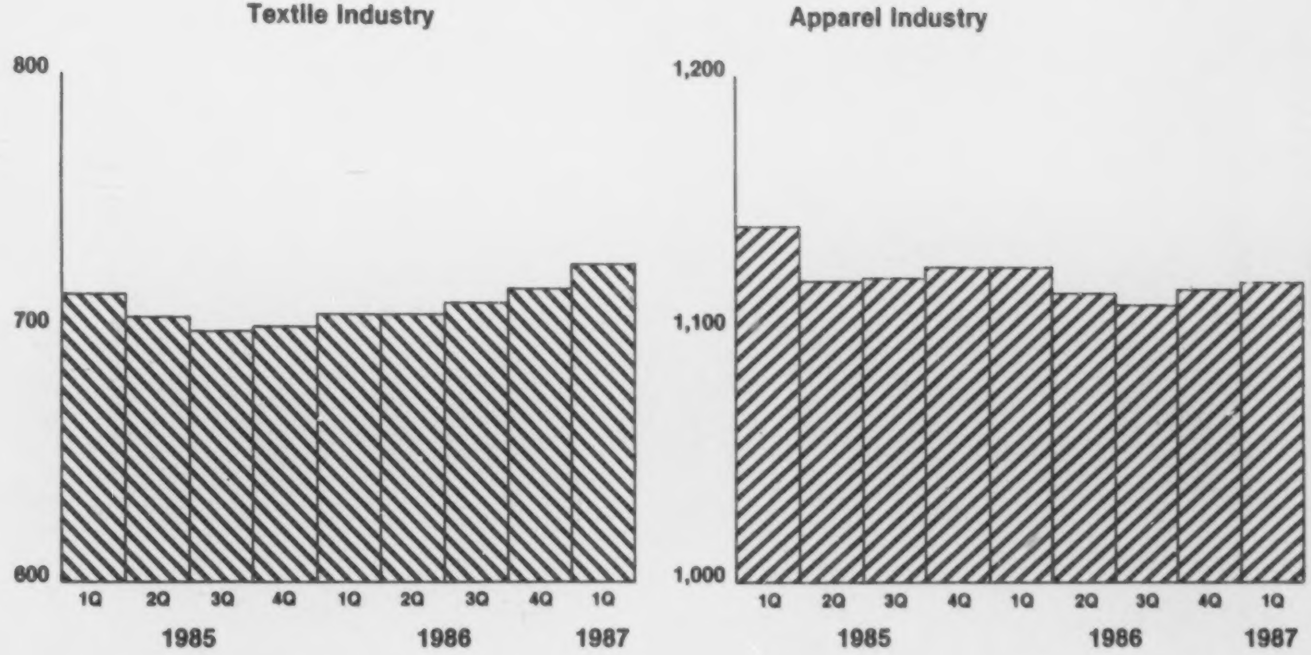
Second, do you wish to invite retaliation against those sectors of our economy so dependent on exports, simply to provide further protection to the most protected of our industries? Many of our most important sectors--for example, wheat and soybean growers and the shipping companies that move their products--already face a bleak export market. Having just agreed to an omnibus bill designed to spur exports, do you want to crush whatever hope they have left of expanding export markets?

Finally, do you wish to raise substantially the costs of clothing to consumers, in particular families with school children and families who have a limited clothing budget? Must they pay ever higher prices simply to provide further relief to an industry with an insatiable appetite for protection? Similarly, are 52,000 retail employees across the country to be put out of work solely to create textile and apparel jobs at a cost of $223,000 each?

Mr. Chairman, American retailers support a strong, viable domestic textile and apparel industry; but by any measure, the industry already is strong and viable. If Congress imposes global restraints for an industry that is enjoying very high production levels and healthy profits, and running at virtually full operating capacity, how do you respond to all the U.S. industries that fall short of such robust economic health and wonder why they aren't provided with across-the-board import quotas? The textile industry's latest quota bill is simply a cleverly disguised measure to capture the domestic market through legislative fiat. For the sake of retailers, millions of retail employees, and a nation of retail customers, RITAC urges you not to report out this legislation.

Thank you.

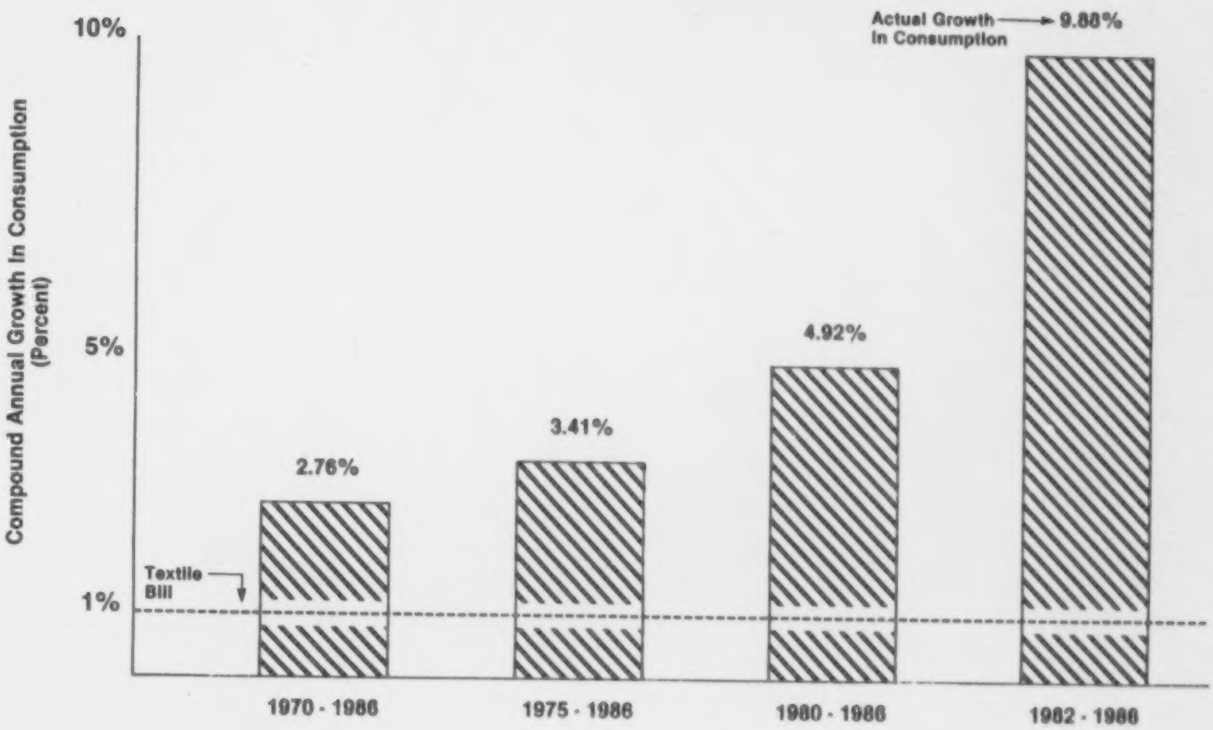
U.S. Textile and Apparel Employment
Quarterly, 1985 - 1987
(Employees in Thousands, Seasonally Adjusted)



Source: U.S. Department of Labor

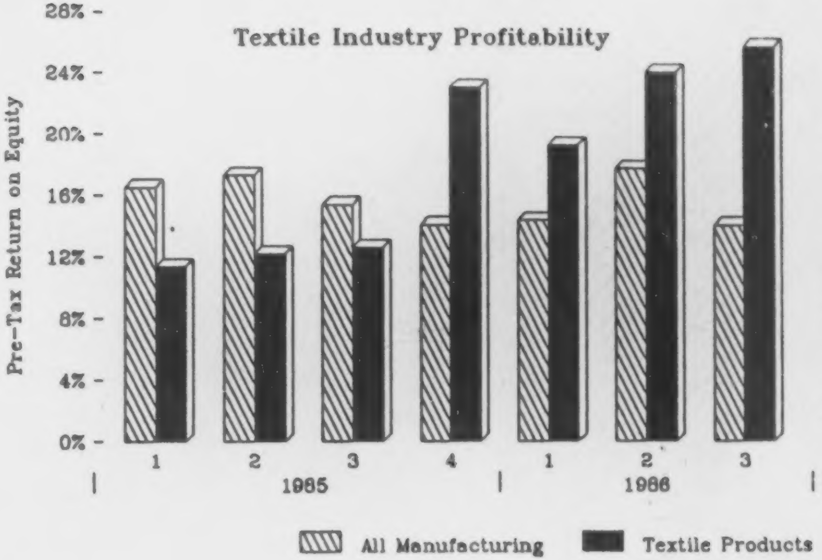
CHART 1

Actual Rates of Growth in the U.S. Textile and Apparel Market Compared to Import Growth Permitted Under the Textile Bill



Source: Textile Organon

CHART 2

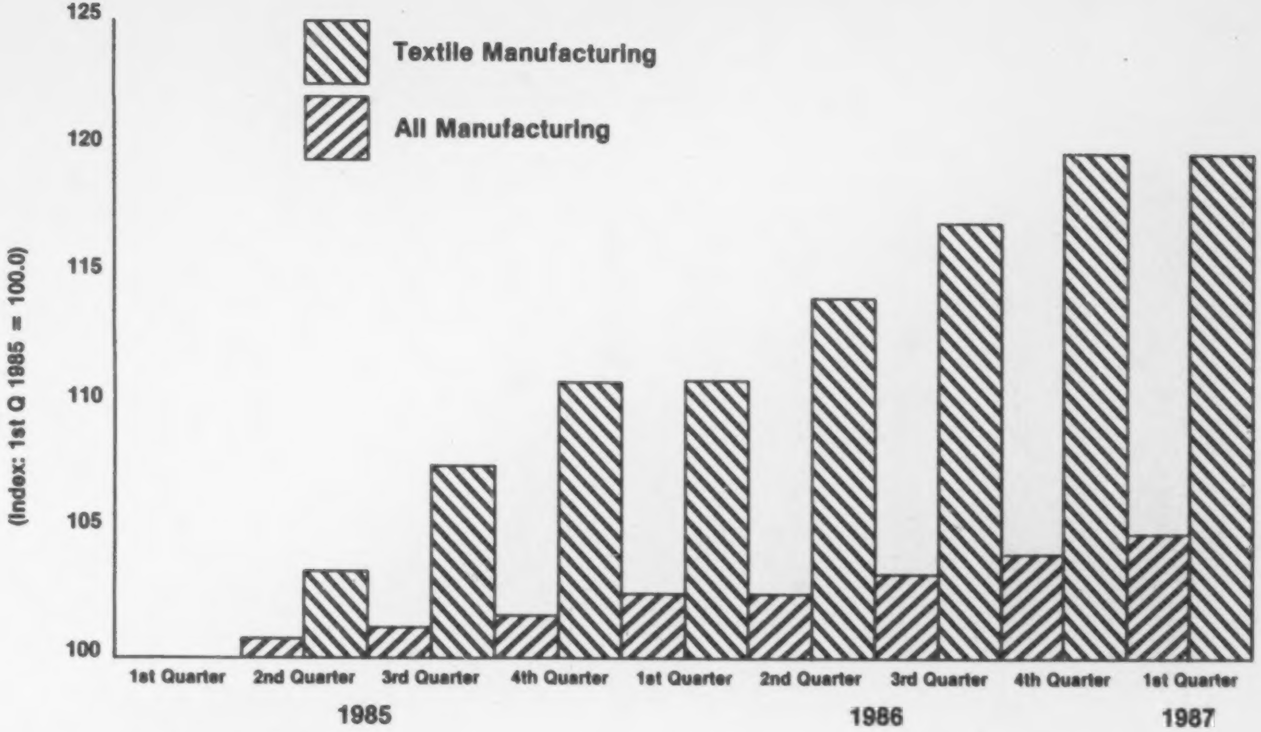


Textile Industry Profitability

Source: U.S. Dept. of Commerce Bureau of Census

CHART 3

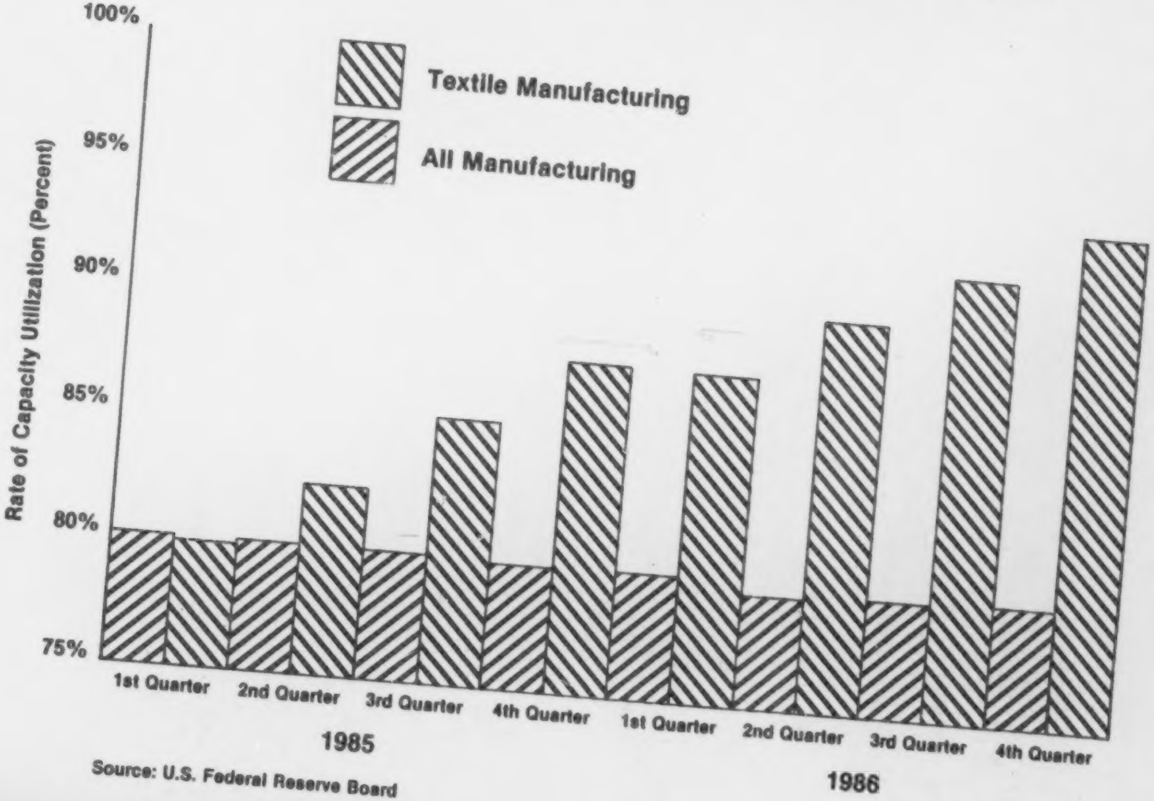
Industrial Production, 1985 - 1987
Textile Industry Versus All Manufacturing Industries
(First Quarter 1985 = 100.0)



Source: U.S. Federal Reserve Board

CHART 4

Capacity Utilization Rates, 1985 - 1986
Textile Industry Versus All Manufacturing Industries



Source: U.S. Federal Reserve Board

CHART 5

THE RETAIL INDUSTRY TRADE ACTION COALITION

Retail Companies
Associated Merchandising Corporation
Balliet's, Inc.
BATUS Retail Group
Carlisle Retailers
Carson Pirie Scott & Co.
Carter Hawley Hale Stores, Inc.
Cole National Corporation
County Seat
Dayton Hudson Corporation
Edison Brothers Stores, Inc.
Esprit
Evans, Inc.
Federated Department Stores, Inc.
Fingerhut Corporation
Generation One Apparel
Hills Department Stores (A Division of SCOA Industries, Inc.)
Hutzler Brothers Company
S. F. Iszard Company
Jamesway Corporation
Jacobson Stores, Inc.
J. C. Penney Company, Inc.
J. L. Brandeis & Sons, Inc.
K Mart Corporation
Laura Ashley
Liberty House
McCarthy Dry Goods Co.
Montgomery Ward & Co., Inc.
Nordstrom, Inc.
G. C. Murphy
Palais Royal of Houston, Inc.
Parisian
Proffitt's, Inc.
R. H. Macy & Co., Inc.
Reynolds Brothers, Inc.
Rheinauers, Inc.
Scarbroughs
Sears, Roebuck and Co.
Selber Brothers, Inc.
Spiegel, Inc.
Stern & Mann's
Strawbridge & Clothier
Sunrise Knitwear Company
Tandy Corporation
The Gap Stores, Inc.
The May Department Stores Company, Inc.
The Limited, Inc.
Woodward & Lothrop
Younkers
Zale Corporation
Zayre Corporation

Associations
American Association of Exporters & Importers - Textile & Apparel Group
American Retail Federation
National Mass Retailing Institute
National Retail Merchants Association
National Shoe Retailers Association
Footwear Retailers of America, Inc.

SUPPLEMENTAL STATEMENT
OF
THE RETAIL INDUSTRY TRADE ACTION COALITION (RITAC)

I. TEXTILE INDUSTRY PROFITS

Upon introduction of H.R. 1562 at the outset of the 99th Congress, the domestic textile and apparel industry asserted that "[i]f [Congress does] not act now to curb imports, in five years our entire industry and four million jobs that depend on it will simply cease to exist" (FFACT press release, March 19, 1985). Chart No. 3 of our May 7 testimony showed that textile industry profitability, as measured by pre-tax return on equity (in percent), had been rising steadily since then through the third quarter of 1986. As shown by Chart No. 3, the industry is prospering.

Since the hearing, the U.S. Government has released fourth-quarter profitability figures. Table No. 1 updates Chart No. 3 and shows that the trend that began in 1985 continues--industry profits measured by pre-tax return on equity were up again, reaching 29.3%. This is over twice the return (in percent) enjoyed by all manufacturing industries as a whole, which enjoyed only a 13.4% pre-tax return on equity.

Table No. 1
Industry Profitability 1985-1986
Pre-Tax Return on Equity (Percent)
Textile Industry Versus All Manufacturing Industries

		Textile Industry	All Manufacturing Industries
1985	1Q	11.4%	16.5%
	2Q	12.2%	17.3%
	3Q	12.6%	15.4%
	4Q	23.1%	14.1%
1986	1Q	19.3%	14.4%
	2Q	24.1%	17.8%
	3Q	25.8%	14.1%
	4Q	29.3%	13.4%

Source: U.S. Department of Commerce, Bureau of Census

To further demonstrate the industry's robust health, we have prepared two additional tables. Table No. 2 shows that the textile industry's operating income (in percent) has steadily increased since the first quarter of 1985 and has surpassed by a wide margin the comparable figure for all manufacturing industries as a whole. Table No. 3 similarly demonstrates that, as measured by pre-tax return on sales (in percent), the textile industry is outperforming all manufacturing industries as a whole.

Table No. 2
Industry Profitability 1985-1986
Pre-Tax Return on Sales (Percent)
Textile Industry Versus All Manufacturing Industries

		Textile Industry	All Manufacturing Industries
1985	1Q	3.4%	6.3%
	2Q	3.4%	6.3%
	3Q	3.5%	5.8%
	4Q	6.0%	5.2%
1986	1Q	5.3%	5.6%
	2Q	6.5%	6.8%
	3Q	7.1%	5.6%
	4Q	7.8%	5.1%

Table No. 3
Industry Profitability 1985-1986
Operating Income (Percent)
Textile Industry Versus All Manufacturing Industries

		Textile Industry	All Manufacturing Industries
1985	1Q	4.4%	5.8%
	2Q	5.1%	6.4%
	3Q	5.4%	5.7%
	4Q	7.1%	5.6%
1986	1Q	6.2%	5.4%
	2Q	7.6%	6.2%
	3Q	8.1%	5.9%
	4Q	8.6%	5.0%

Source: U.S. Department of Commerce, Bureau of Census

In short, whether measured by pre-tax return on equity, operating income, or pre-tax return on sales, the domestic industry is enjoying handsome profits and continues to prosper. Clearly, while imports have increased since 1985, they have largely captured incremental growth in demand, without cutting deeply into the existing manufacturing base and without undermining the domestic industry's continuing ability to make money. To continue to prosper, the domestic industry does not need Congress to enact H.R. 1154, its latest quota bill.

II. TEXTILE AND APPAREL PRODUCTION

Representative Schulze asked us to prepare figures on recent growth in the major components of domestic textile and apparel consumption. At the hearing, our economist stated that apparel accounted for only about 40 percent of textile fiber consumption in the United States, the remainder being accounted for by industrial products and home furnishings. Rapid growth in industrial and home furnishings demand, areas where U.S. producers dominate, has made a significant contribution to rising production levels, employment, and profits in the domestic industry.

At this juncture, only aggregate volume data are available on domestic production and consumption in non-apparel markets. This information, summarized below, indicates that U.S. producers of textiles for industrial uses and the home furnishings trades have participated in expanding domestic consumption in the past year.

Table No. 4
U.S. Consumption of Apparel and Non-apparel Products
of Cotton, Wool and Manmade Fibers
(millions of pounds)

	Apparel	Non-apparel	Total Consumption
1985	5,945	7,553	13,498
1986	6,592 + 10.9%	8,361 + 10.7%	14,943 + 10.7%

Source: Textile Organon, March 1987.

Table No. 4
U.S. Production of Apparel and Non-apparel Products
of Cotton, Wool and Manmade Fibers
(millions of pounds)

	Apparel[1]	Non-apparel
1985	4,449	7,493
1986	4,896 + 10.0%	8,114 + 8.3%

---

[1] Includes apparel made in the United States from imported apparel yarns and apparel fabrics. U.S. apparel production from U.S. made yarns and fabrics increased from 3,473 thousand pounds in 1985 to 3,799 thousand pounds in 1986, a gain of 9.4 percent.

Source: Textile Organon, March 1987.

III. PERMITTED GROWTH UNDER H.R. 1154

Representative Frenzel indicated that Chart No. 2 appeared to overstate the growth in consumption of textile and apparel goods. Chart No. 2 shows the compounded annual rate of growth in the U.S. textile and apparel market measured in pounds over four periods: 1970-1986, 1975-1986, 1980-1986, and 1982-1986. Representative Frenzel indicated it would be helpful to assess growth as measured in dollars and/or square yard equivalents.

In preparing Chart No. 2, RITAC sought to emphasize that growth in domestic consumption is normally in excess of one percent. During periods of economic expansion it can be substantially higher, as has been the case since 1982. At the individual product category level--the level at which the proposed quotas would be administered if H.R. 1154 were enacted--annual growth rates can reach 10 percent, 20 percent, or more as changes in fashion and consumer preference drive demand up rapidly. Unfortunately, this legislation would force retailers to buy an increasing share of their overall product mix domestically, regardless of whether or not it made sense to do so from a merchandising standpoint.

The data underlying Chart No. 2 were taken directly from figures contained in Textile Organon, published in New York by the Textile Economics Bureau. This publication is widely regarded as an authoritative source of data on industry trends. The use of pounds as a unit of measure is no less objective and accurate than the Commerce Department's use of square yard equivalents. Pounds may actually be a more accurate measure because fewer manipulations of the underlying product data are required to reach a common basis of measure.

The Textile Organon data do in fact show that overall U.S. consumption of cotton, wool, and manmade fiber textile and apparel products has grown at a compound annual rate of 9.88 percent since 1982. (A copy of the relevant data from the March 1987 issue of Textile Organon is attached as Exhibit A.) Measured in square yard equivalents, the rate of growth in domestic consumption has been 5.4 percent since 1982. In practical terms, the true rate probably lies somewhere between these two points. It is well above one percent.

An economist attempting to establish a "long term" rate of growth would measure consumption over a long enough period to capture any fundamental changes in market structure and demand and would compare equivalent points in a business cycle, e.g., peak to peak. In textiles and apparel, the rate would be somewhere between 2 and 3 percent in the aggregate.

From the retailer's perspective, the use of data showing growth since 1982 (along with rates extending back to 1970) is important for several reasons. First, the high rates of import growth complained about by the domestic industry have coincided with and are in response to the surge in domestic demand over the past four years. Second, and more important, retailers must deal with changes in market demand over relatively short periods of time. For retailing, reality is how to gauge and react to current growth in the market. In 1986, the total market grew by 9.5 percent measured in pounds and 7.3 percent in square yard equivalents. Individual elements of the market grew even more rapidly--some less. In this context, placing a one percent growth limit on imports will create absolute havoc in the merchandising of textile and apparel products to the American consumer.

IV. LOST JOBS

In an effort to ascertain what percentage of retail industry employees would lose their jobs if H.R. 1154 were enacted, Representative Pease asked how many people hold retail jobs. Mr. Gould responded that 52,000 retailers out of 15 million retail employees would lose their jobs if the bill were enacted. In his response to Representative Pease, Mr. Gould inadvertently overstated the number of retail employees used as a basis for calculating retail job losses by providing the figure for total retail employment in the United States. The 1986 retail employment base on which the calculations are premised was not 15 million employees, but rather only 2,493,500.

The job loss estimate was derived by the International Business and Economic Research Corporation (IBERC) in a study entitled, "Analysis of the Impact of the Textile and Apparel Trade Act of 1987." (The one-page Executive Summary of the study and the relevant pages on retail employment losses are attached as Exhibit B.) To calculate the impact of the bill on retail employment, IBERC first estimated the likely net decline in 1987 retail sales (i.e., decline in consumption). Using 1986 retail employment and consumption as a base, IBERC then calculated the ratio of retail sales volume to retail employment. From this, it then calculated the net decline in retail job losses.

TABLE 13:
U.S. MILL CONSUMPTION OF FIBER AND DOMESTIC CONSUMPTION OF FIBER & PRODUCTS *(CONTINUED)*

MILLION POUNDS & *PERCENT*

	MILL CONSUMPTION OF 4 FIBERS									
	MAN-MADE FIBER		COTTON		WOOL		SILK		TOTAL	
YEAR	LB	%	LB	%	LB	%	LB	%	LB	%
	(23)		(24)		(25)		(26)		(27)	
1970	5096.0	*55.7*	3773.6	*41.3*	273.3	*3.0*	1.8	--	9144.7	*100.0*
1971	6062.5	*59.2*	3965.1	*38.7*	219.3	*2.1*	1.7	--	10248.6	*100.0*
1972	6996.5	*63.1*	3849.8	*34.7*	246.9	*2.2*	2.1	--	11095.3	*100.0*
1973	7988.2	*67.6*	3643.3	*30.9*	182.1	*1.5*	3.3	--	11816.9	*100.0*
1974	7067.2	*67.4*	3306.1	*31.5*	116.5	*1.1*	2.6	--	10492.4	*100.0*
1975	6883.0	*68.3*	3068.7	*30.4*	132.0	*1.3*	1.0	--	10084.7	*100.0*
1976	7374.9	*67.6*	3389.0	*31.1*	145.9	*1.3*	2.8	--	10912.6	*100.0*
1977	8096.2	*71.0*	3169.8	*27.8*	133.9	*1.2*	1.6	--	11401.5	*100.0*
1978	8341.0	*72.4*	3040.4	*26.4*	141.6	*1.2*	2.0	--	11525.0	*100.0*
1979	8523.4	*72.7*	3066.4	*26.2*	134.4	*1.1*	1.5	--	11725.7	*100.0*
1980	7885.7	*71.1*	3064.4	*27.7*	137.8	*1.2*	+	--	11087.9	*100.0*
1981	7721.5	*72.8*	2730.8	*25.8*	152.7	*1.4*	2.0	--	10607.0	*100.0*
1982	6653.5	*71.8*	2478.9	*26.8*	129.5	*1.4*	2.0	--	9263.9	*100.0*
1983	7994.5	*73.0*	2795.7	*25.5*	162.5	*1.5*	2.0	--	10954.7	*100.0*
1984	7789.5	*73.3*	2668.2	*25.2*	163.2	*1.5*	3.0	--	10623.9	*100.0*
1985	8035.5	*73.3*	2796.0	*25.5*	134.7	*1.2*	3.0	--	10969.2	*100.0*
1986	8454.0	*70.9*	3297.5	*27.7*	164.5	*1.4*	3.0	--	11916.0	*100.0*

	DOMESTIC CONSUMPTION OF 3 FIBERS (CONS)=MILL CONSUMPTION+IMPORTS (IMP) LESS EXPORTS (EXP) OF SEMIMANUFACTURED & MANUFACTURED PRODUCTS											
	MAN-MADE FIBER			COTTON			WOOL			TOTAL		
YEAR	IMP	EXP	CONS	IMP	EXP	CONS	IMP	EXP	CONS	IMP	EXP	CONS
	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)	(37)	(38)	(39)
1970	329.3	147.1	5278.2	463.1	199.2	4037.5	85.9	4.9	354.3	678.3	351.2	9670.0
1971	451.1	146.7	6366.9	492.6	226.4	4231.3	66.2	9.4	276.1	1009.9	382.5	10874.3
1972	480.4	177.6	7299.3	610.7	290.4	4170.1	63.0	30.6	279.3	1154.1	498.6	11748.7
1973	465.3	288.2	8165.3	563.5	325.2	3881.6	61.3	30.8	212.6	1090.1	644.2	12259.5
1974	371.3	390.7	7047.8	502.7	392.5	3416.3	53.3	23.0	146.8	927.3	806.2	10610.9
1975	400.4	322.4	6961.0	501.3	353.7	3216.3	48.6	19.2	161.4	950.3	695.3	10338.7
1976	479.5	352.2	7502.2	708.6	413.2	3684.4	66.7	13.9	198.7	1254.8	779.3	11385.3
1977	530.7	367.7	8259.2	669.4	369.5	3469.7	85.9	11.5	208.3	1286.0	748.7	11937.2
1978	642.6	441.7	8541.9	845.4	355.7	3530.1	92.2	11.6	222.2	1580.2	809.0	12294.2
1979	525.0	596.6	8451.8	746.1	478.0	3334.5	80.6	14.0	201.0	1351.7	1088.6	11987.3
1980	540.6	771.5	7654.8	810.9	523.1	3352.2	85.1	23.8	199.1	1436.6	1318.4	11206.1
1981	639.1	637.7	7722.9	961.9	367.3	3325.4	93.1	11.8	234.0	1694.1	1016.8	11282.3
1982	697.9	438.5	6912.9	897.2	253.4	3122.7	100.1	10.8	218.8	1695.2	702.7	10254.4
1983	1069.4	460.7	8603.2	1135.4	219.6	3711.5	131.1	18.9	274.7	2335.9	699.2	12589.4
1984	1342.0	488.0	8642.5	1464.8	204.6	3928.4	189.4	15.1	337.5	2996.2	707.7	12908.4
1985	1397.0	460.3	8972.2	1578.8	210.7	4164.1	248.9	19.3	364.3	3224.7	690.3	13500.6
1986	1684.3	506.2	9632.1	1881.3	271.3	4907.5	255.3	13.8	406.0	3820.9	791.3	14945.6

NOTE: Data on Glass Fiber is no longer available due to company disclosure. The series, including Glass Fiber, was last published in the March 1985 issue.
This table, expanded to include the New MFA Fibers, will be reproduced in a forthcoming issue.

SOURCES OF DATA, ARRANGED BY COLUMN NUMBER ( ):

All Census import and export commodity numbers are as of January 1987.

1&4: This issue on page 50.
12&15: This issue on page 51.
7&18: This issue on page 55.
2: Import Classes 309.0310, .0610, .2000, 310.0106, .0130, .0206, .0230 & .0610.
5: Import Classes 309.3010, .3310, .4320 & .4325.
8: Import Classes 309.6615 & .7510.
9: Export Class 309.7400.
13: Import Classes 309.0200, .0330, .0340, .0365, .0500, .0630, .0640, .0665, .2100, .2500, 310.0107, .0108, .0110, .0114, .0149, .0150, .0170, .0207, .0208, .0210, .0214, .0249, .0250, .0270, .0550, .0630 & .0650.
16: Import Classes 309.3030, .3040, .3050, .3065, .3200, .3340, .3350, .3365, .4331, .4336, .4341, .4351, .4361, .4366, .4371 & .4390.
19: Import Classes 309.6625, .6630, .6645, .6660, .7000 & .7525 - .7555.
20: Export Classes 309.7620, .7630, .7640 & .7660.
24: U.S. Census Bureau Report M22P.
25: U.S. Census Bureau Report M22D.
26: Import Classes 308.0200 - .2000.
28, 29, 31, 32, 34 & 35: Cotton and Wool Outlook & Situation (U.S. Department of Agriculture).

CERTAIN TOTALS IN THE TABLES:

(Obvious totals such as Columns 1+2=3, 4+5=6, etc. are not described here.)

10: Columns 7+8-9
21: Columns 18+19-20
23: Columns 11+22
30: Columns 23+28-29
33: Columns 24+31-32
36: Columns 25+34-35

EXHIBIT A

IBERC

INTERNATIONAL BUSINESS AND ECONOMIC RESEARCH CORPORATION
2121 K STREET, N.W.
WASHINGTON, D.C. 20037
(202) 955-6155

EXHIBIT B

EXECUTIVE SUMMARY*

ANALYSIS OF THE COSTS OF THE TEXTILE AND APPAREL TRADE ACT OF 1987

- The Textile and Apparel Trade Act of 1987 would further restrict U.S. textile and apparel imports to 1986 levels plus 1 percent annual growth and freeze nonrubber footwear imports at 1986 levels.

- The rigid category system imposed on the new footwear quotas would freeze the composition of footwear imports to 1986 patterns for the next 10 years, removing the flexibility of importers to respond to changing fashion and consumer demand. Consumers would be unable to purchase from abroad desired quantities of certain fabrics, apparel and footwear which domestic producers either cannot produce at all, or cannot produce at prices comparable to the imported product.

- Consumers would be forced to pay an estimated $10 billion a year at retail in higher prices to protect less than 47,000 textile, apparel and footwear jobs. The cost per job amounts to a surreal $223,000.

- Over 52,000 retail jobs would be lost due to decreased consumer spending on textile products, apparel and footwear whose prices would be inflated by the legislation. In fact, 5,700 more jobs would be lost in the retail sector than would be protected in the manufacturing sector.

- By 1996, when the first official evaluation of the legislation is required, consumers will have paid a total of $88 billion due to higher prices for a reduced supply of goods.

- The legislation would contribute to inflation by increasing textile and apparel import prices (up 6 percent) and domestic textile and apparel prices (up 2 percent), as well as footwear import prices (up 9 percent) and domestic footwear prices (up 10 percent). Lower income consumers would pay the heaviest penalty as product upgrading reduced or eliminated the availability of less expensive merchandise.

- The enactment of the legislation would slow overall economic growth, harm the competitiveness of U.S. export industries, ultimately reduce the competitiveness of the U.S. textile/apparel and footwear industries, invite retaliation on up to $29 billion of U.S. exports and potentially affecting more than 700,000 jobs in export industries, and undermine U.S. objectives of achieving greater market access in the Uruguay Round.

***A copy of the complete study is available upon request**

The value of the benefit of the legislation to these workers is computed by multiplying the number of jobs protected by the average 1986 nonrubber footwear hourly wage ($5.61), the nonrubber footwear average hours worked per week (36.1), and the average number of weeks of leather sector unemployment per year (17.4):[11]

(15,600) ($5.61) (36.1) (17.4) = $55.0 million.

Therefore, for every $1 footwear workers receive from the legislation, American consumers pay $42.

B. Impact on Retail Employment

Additional quotas on textile and apparel imports and new quotas on footwear imports would result in major job losses in the retail sector. This is because reduced imports would not be fully replaced by increased sales of domestic substitutes. Faced with higher prices of both imported and domestic textiles/apparel and footwear, consumers would purchase smaller quantities from both sources.

To calculate the impact of the quotas on retail employment, we first determine the net decline in estimated 1987 retail sales (consumption). This will be the sum of the decline in 1987 imports and the increase in 1987 domestic production resulting from the quotas. Table A shows the consumption decline to be 1.3 percent for textiles and apparel and 6.4 percent for footwear, or 181.4 million pounds of textiles/apparel and 83.5 million pairs of footwear. Using 1986 retail employment[12] and consumption[13] as a base, the ratio of retail sales volume (consumption) to retail employment can be calculated:

---

[11] Ibid. The average number of weeks of unemployment of nonrubber footwear workers was unavailable; the estimate for the leather sector was used instead.

	1986 Consumption (millions)	1986 Retail Employment (thousands)	Retail Sales/ Employee
Textiles/apparel	13,067.4 lbs.	2,185.9	5978
Footwear	1,162.2 prs.	307.6	3778

---

[12] 1986 retail employment relating to textiles/apparel and footwear was calculated as follows:

Textiles/apparel: Monthly retail employment in apparel and accessory stores (SIC 56) excluding shoe stores, from Bureau of the Census, Employment and Earnings, various issues, was summed and averaged for the year and added to the employment in department stores (SIC 531), same source, related to textiles/apparel. The latter was approximated by multiplying total department store employment by the share of 1985 retail sales arising from all apparel items, carpets, linens, and other textile articles (Jay Scher, Department and Specialty Store Merchandising and Operating Results, Financial Executives Division, National Retail Merchants Assn., 1986).

Footwear: Monthly retail employment in shoe stores (SIC 566) from Bureau of Census, Employment and Earnings, various issues, was summed and averaged for 1986 and added to the employment in department stores (SIC 531), same source, related to footwear. The latter was approximated by multiplying total department store employment by the share of 1985 retail sales arising from shoe sales (Jay Scher, see above).

[13] 1986 production plus imports less exports, using data from sources described in Table B.

A net decline in textile/apparel consumption of 181.4 million pounds results in retail job losses of 30,345 (181,400,000/5978). A net decline in footwear consumption of 83.5 million pair results in additional retail job losses of 22,102. Thus, the number of jobs lost by retail workers as a result of the restrictions on trade in the Textile and Apparel Trade Act exceeds the number of manufacturing jobs protected. Overall, 52,477 retail jobs would be lost in order to protect 46,700 manufacturing jobs for a net loss of 5,747 jobs. The dollar cost of this unemployment to retail workers clearly exceeds the dollar value of the benefit to manufacturing workers.

III. Longer-Term Impact on Consumers

The longer-term impact on consumers of the legislation was measured by computing the present discounted value of the total and net consumer costs for the first year, over the initial 10 years of its operation. The period of 10 years was chosen because the bill mandates that consumers pay for the quotas for 10 years before the Secretary of Commerce is required to review the operation of the legislation and report to Congress. Presumably, no official evaluation of the costs relative to the benefits would occur prior to that review.

The value of the costs over the next 10 years were derived from the following formula:

$$PVTCC = \sum_{n=i} TCC_i \; (1+d)^{-i}$$

Chairman GIBBONS. Thank you, sir.

I am going to hear from all the others before we come back. Let us go to the Footwear Retailers of America.

STATEMENT OF PETER T. MANGIONE, PRESIDENT, FOOTWEAR RETAILERS OF AMERICA

Mr. MANGIONE. Thank you, Mr. Chairman.

My name is Peter Mangione, and I am president and executive director of the Footwear Retailers of America. Our association represents chain shoe stores whose members retail about half the footwear sold annually in the United States, and we provide about 150,000 retail jobs.

I testify today in opposition to H.R. 1154. We believe this bill is unnecessary and counterproductive. In March, this subcommittee reported out the omnibus trade bill, H.R. 3, which contains a reasonable series of balanced amendments to the escape clause provisions of the Trade Act of 1974. The House has now passed H.R. 3. Having acted upon generic legislation, it makes little sense to circumvent those provisions and enact costly and disruptive unilateral restrictions on footwear imports.

H.R. 1154 would impose permanent global quotas on all U.S. nonrubber footwear imports, and would freeze imports at 1986 levels. The bill also established 30 permanent categories by type, gender, composition, and price. If this bill is passed, retailers will no longer be able to satisfy consumer demand for a wide variety of low-cost fashion and athletic footwear. Consumer prices of both imported and domestic footwear would increase, and the ability to meet changes in style would be reduced. Consumer shoe costs will increase annually by over $2 billion per year at retail. Low-income consumers will be hit the hardest. They will be faced with the reality of either having to pay higher prices or simply foregoing purchases of shoes they need.

In short, the bill would force consumers to buy high-price shoes that they do not want and cannot afford. One concrete example of that: If the 1986 imports of athletic footwear had been restricted to the 1983 category shares provided in the bill, the American public would have experienced a shortfall of close to 90 million pairs of nonrubber athletic shoes, shoes which are simply not made in the United States.

Footwear retailing is also an important American industry. It is an industry that would be seriously injured by enactment of this bill. It would cause the loss of over 22,000 jobs in the retail shoe stores across the country.

According to a recent study by the International Business and Economic Research Corp., 6,500 more footwear-related jobs would be lost than would be saved in the manufacturing sector.

H.R. 1154 will not make the U.S. shoe manufacturing industry more competitive. U.S. footwear consumption grew by a staggering amount from 1975 to 1986, by over 400 million pair, with 350 million of this increase occurring in the last 5 years. Imports have created this boom in consumption, particularly in low-priced and athletic footwear.

The U.S. footwear industry does not today and will never become competitive in highly labor-intensive, low-priced or athletic footwear. U.S. overhead and wage rates simply make it impossible. Restraining U.S. footwear imports will merely create product shortages, restrict consumer choice, and raise prices, all resulting in sharply lower footwear consumption.

It will not increase domestic production or create new shoe manufacturing jobs.

The ambitious investment and modernization program—I call it "Star Wars For Shoes"—that has been discussed here by the domestic shoe manufacturers will simply never take place. Our manufacturing industry in the United States in footwear is already the most technologically advanced in the world. This is according to the assessment of the industry trade association itself.

Technology is already widespread among U.S. shoe manufacturing firms. Indeed, according to the ITC survey of manufacturers in 1985, less than one-seventh of the additional investment in technology claimed by the industry association necessary to make U.S. producers competitive with foreign producers would actually be made.

Even in the unlikely event that such investments were made, they would not close the huge cost gap between foreign and U.S. shoe production, which is on average about 25 percent and ranges up to 40 percent on particular items. Average factory cost of U.S.-made shoes is about $15.21 a pair, $15.21 wholesale for U.S.-made shoes. Average unit cost for imported shoes is about $6.60. Only about 10 percent of all imports are over $12 in value. Clearly, the ITC's conclusion that imports are complementary and do not substitute for U.S. shoe production is irrefutable.

The improbability of the U.S. shoe manufacturing industry's reinvention is clear from the meager success of the footwear revitalization program which spent some $60 million in government assistance from 1977 to 1981, pursuing essentially the same competitive enhancement strategy being advanced today.

Moreover, an industry-wide great leap forward in shoe production would even be more improbable today than it was in 1977. The major manufacturers that control the bulk of U.S. production and U.S. shoe manufacturing employment are now committed to international shoe sourcing and would continue to import heavily during and after any quota period.

To expand U.S. shoe production and invest the huge amounts necessary in new equipment would require a reversal of the international flexibility and profit opportunities currently enjoyed by U.S. manufacturers. Even without this import momentum now experienced by U.S. shoe manufacturers, the earlier program produced modest results.

Our shoe manufacturing industry in the United States is surviving today, but it is doing it by differentiating its product from foreign production on bases other than price, such as brand recognition, range of sizes, specialized products, quality and fit. This strategy, which concentrates production on higher priced quality goods, has captured nearly 40 percent of the factory value of all shoes sold in the United States in 1986. Indeed, U.S. shoe manufacturers dominate the nationally branded market for non-athletic shoes capturing about 70 percent of that niche in 1983, the last year for which we have data.

In fact, overall, domestic shoe producers dominate the U.S. shoe market, accounting for about 70 percent of the factory value of all shoes sold in the U.S. market in 1984. That is the last year, again, for which we have data.

The best strategy, in our opinion, for preserving our shoe-making base in the United States is open trade, not creating distortions in the market that will force foreigners into the production of higher-priced products, the backbone of our shoe manufacturing industry.

It is for these reasons that we urge the Committee to reject the provisions of H.R. 1154 and to vote against reporting the bill. Thank you.

[The statement of Mr. Mangione follows:]

STATEMENT OF

FOOTWEAR RETAILERS OF AMERICA

This statement is submitted on behalf of the Footwear Retailers of America ("FRA") in opposition to H.R. 1154, the Textile and Apparel Trade Act of 1987. FRA is an association of chain shoe stores whose members retail about half of all the footwear sold annually in the United States and provide 150,000 jobs. A list of FRA members is attached.

H.R. 1154 is highly protectionist and unwarranted legislation. It would place a permanent global quota on all non-rubber footwear imports, freezing imports at 1986 levels. The bill would strangle trade by establishing 30 permanent categories. It would provide only negligible, and clearly inadequate compensation authority, and would prohibit the President from making any reductions in footwear tariffs in the Uruguay Round.

FRA urges Committee members to oppose H.R. 1154 on the grounds that it will: 1) create a dramatic increase in consumer prices and threaten U.S. jobs; 2) not make the U.S. footwear manufacturing industry from becoming competitive; 3) reduce the ability of retailers and importers to meet changes in consumer demand; 4) violate U.S. obligations under the GATT, giving rise to compensation claims and retaliation; and 5) undermine our efforts to achieve greater market access abroad and our chances for progress in the New Round.

FRA believes that H.R. 1154 is at cross-purposes with the provisions of H.R. 3 recently passed by the House, in particular the amendments to section 201, which are intended to promote the competitiveness of U.S. industry. The U.S. footwear manufacturing industry has restructured and is highly competitive in categories such as medium priced, branded footwear. The domestic industry will never become competitive in low price, handmade, fashion footwear and athletic footwear, which together account for a significant percentage of U.S. footwear imports and most of the growth in imports. Over half of the imports are imported by domestic producers themselves. The footwear quotas imposed under this bill will do nothing to change this situation. Thus, the footwear quotas imposed under the bill will only succeed in raising prices, limiting consumer choice, provoking retaliation and threatening U.S. jobs.

I. H.R. 1154 WILL CAUSE ENORMOUS INCREASES IN CONSUMER PRICES

H.R. 1154 would impose enormous costs on American footwear consumers. According to a study by International Business and Economic Research Corporation (IBERC) released in March of this year, in the first year alone the bill would force a 9 percent increase in the price of imported footwear, permitting domestic producers to increase their prices by 10 percent. (See summary attached) These price increases translate into a financial burden on American footwear consumers of over $2 billion at retail in the first year of the bill alone.

These price increases will fall hardest on low-income consumers. In addition, these consumers can expect to see less and less lower-priced footwear available for purchase because foreign suppliers will ship higher value footwear to the U.S. in order to maximize income over a smaller volume of shipments.

Almost all low-priced footwear that is currently imported cannot be produced by U.S. manufacturers at even remotely competitive prices. Consumers will be forced to purchase higher-priced domestic substitutes, or most probably to forego the purchase altogether. Moreover, the product upgrading that is certain to occur under H.R. 1154 will put more imported footwear in direct competition with the higher priced domestically-produced footwear.

The hidden costs of H.R. 1154 are not confined to price increases. IBERC estimates the bill will cause the loss of 22,100 retail jobs at shoe stores and in the shoe departments of department stores. In fact, IBERC found that 6,500 more footwear-related jobs would be lost than would be protected in the manufacturing sector. H.R. 1154 would tax consumers the equivalent of $146,500 for each manufacturing job it would protect.

II. THE BILL WILL NOT MAKE THE DOMESTIC FOOTWEAR MANUFACTURING INDUSTRY MORE COMPETITIVE: IMPORTS HAVE GROWN TO MEET CONSUMER DEMAND AND WILL NOT BE REPLACED BY DOMESTIC PRODUCTION

Total consumption of footwear grew by over 400 million pairs from 1975 to 1986, with over 350 million of this growth from 1981 to 1986. U.S. per capita footwear consumption in 1986 reached the unprecedented levels of 4.8 pair for non-rubber and 5.6 pair for total footwear. Per capita consumption prior to 1984 for non-rubber footwear had hovered between 3 and 4 pair for twenty-five years. Imports created this boom in consumption. The introduction of wide style ranges of imported athletic footwear and low-valued fashion footwear has fueled growth in a previously static marketplace. These growth segments are limited to imports. Due to U.S. wage scales and overhead costs, the U.S. industry cannot and never will produce these products at the requisite price points in any meaningful volume. Restraining imports within these products groups to 1986 levels thus restricts U.S. consumer choice without increasing U.S. production or creating more U.S. jobs.

Low-valued imports and athletic footwear imports are labor intensive, hand-made products manufactured in a wide range of fashion-oriented styles. U.S. production of lower-valued footwear, on the other hand, is largely not competitive with imports. It is machine-made, injection molded footwear extremely limited in style and product-type. Moreover, U.S. production of athletic footwear does not and has never approached the volume necessary to satisfy market demand. For example, U.S. non-rubber athletic footwear production in 1986 equalled a mere 3 percent of total U.S. non-rubber athletic footwear consumption. Thus, imports of these two product groups complement rather than displace U.S. productions and restraining these import-specialty groups will not result in significantly increased U.S. production. The role these two import-specialty groups played in increasing U.S. consumption is readily demonstrated by a per capita analysis of the U.S. marketplace.[1] (See Table 1).

Between 1981 and 1986 per capita consumption increased from 3.2 pair to 4.8 pair. During the same time period per capita consumption of the low priced imports (those valued at $5.00/pr or less) increased from 0.7 pair to 1.7 pair, while athletic import per capita consumption increased from 0.3 pair to 1.0 pair. Thus, these two import groups accounted for all of the pair per capita increase, and all of the growth in consumption.

Restricting these import specialty groups would thus simply halt the growth in U.S. consumption without increasing U.S. production.

III. QUOTAS WOULD RESTRICT RETAILERS' ABILITY TO RESPOND TO CONSUMER DEMAND

The bill would restrict not only the total volume of imports but would also arbitrarily freeze the product mix available to the American consumer according to current demand patterns. A static quota category system with 30 categories based on gender, upper composition, style and price point fails to allow for changes in consumer preference. Such inflexibility in the fashion-driven, constantly changing U.S. footwear business would severely restrain the retailer's ability to respond to consumer demand. For example, in 1979 U.S. women were demanding "Candies" leather high-heeled slides and women's leather footwear imports from Italy were the response to this demand, growing by 50 percent in 1979 over 1978 levels and then dropping by 53 percent in 1980 when the fashion changed. Since 1983, fashion and lifestyle changes have shifted demand to athletic-styled footwear. Today instead of "Candies", high-topped Reeboks are the height of fashion.

Recent trends in athletic footwear clearly demonstrate the shifting pattern of demand. For example, between 1983 and 1986 imports of athletic footwear grew by 142.8 million pair and the product group's share of total imports increased from 15.1 percent to 24.5 percent. (See Table 2.)

Arbitrarily imposing the product mix of one year on subsequent years' imports clearly spells disaster for consumers. For example, if 1986 imports of athletic footwear had been restricted to 1983's category shares, the American public would have experienced a shortfall of 88.5 million pair of non-rubber athletic shoes. Moreover, the U.S. footwear manufacturing industry definitely would not have been able to cover the shortfall because it could not produce competitively at the price points which created consumer demand.

The bill also will create uncertainty for retailers and importers because it makes no provision with respect to the administration of the footwear quotas. The bill merely gives the Secretary of Commerce the authority to promulgate regulations necessary to "fair and efficient administration" of the quotas. Importers and retailers have no assurance as to how this authority would be implemented. Critical questions as to the method and timing of quota allocation are left unanswered.

---

[1] Per the ITC Report on the 1985 201 Investigation (No. TA-201-55): "Since footwear consumption is largely dependent upon population size, raw consumption data can be normalized by looking at per capita consumption." At A-19.

IV. H.R. 1154 WILL VIOLATE U.S. OBLIGATIONS UNDER THE GATT AND PROVOKE COMPENSATION CLAIMS AND RETALIATION

The permanent, unilateral import freeze imposed under the bill violates the United States' obligations under Articles XI, XIII and XIX of the GATT giving rise to compensation claims and the threat of foreign retaliation. Article XI of the GATT prohibits the unilateral imposition of quantitative restrictions unless specifically authorized under a GATT rule. Article XIII further provides that if quotas are imposed they must be implemented on a non-discriminatory basis, based on a previous representative period and allow for some growth. Article XIX of the GATT authorizes the imposition of import restrictions in order to respond to increased imports which cause or threaten to cause serious injury to a domestic industry producing a like product. Article XIX specifies, however, that the protective measures taken must be only to the extent and for such time as is necessary to remedy the injury. Furthermore, the contracting party imposing the escape clause action is required to compensate affected contracting parties for trade losses suffered. If no agreement on compensation is reached within 90 days of the date the measures are implemented, the affected contracting parties have the right to retaliate.

The global import quotas on footwear imports under H.R. 1154 cannot be justified as an import safeguard measure under Article XIX because they are permanent rather than temporary, are based on a mere declaration of injury and prohibit any growth in imports above 1986 levels. The bill also provides inadequate tariff negotiating authority to meet the compensation requirements under Article XIX.

The bill does not conform to the requirements of Articles XIX that relief be temporary and only at the level necessary to remedy the injury. Rather than imposing temporary relief, the bill establishes permanent quotas on footwear imports which will only be reviewed at the end of 10 years, with no requirement that they be modified or terminated in response to changes or adjustments in the domestic industry. Moreover, the fact that the bill freezes footwear imports at 1986 levels and allows for no growth is also inconsistent with Article XIII.

Article XIX contemplates a finding of serious injury based on an actual investigation and fact finding with respect to specific products, not a mere declaration that such injury exists. Under U.S. law an investigation, findings and Presidential review are required prior to the imposition of escape clause relief. The across-the-board declaration of injury in the bill makes a mockery of the escape clause provisions and avoids the requirements of U.S. law. It establishes a precedent under which any contracting party would be free to impose trade restrictions based on nothing more than a simple statement by a government that a domestic industry has been injured as a result of increasing imports.

Finally, the compensation authority provided to the President under the bill is far from adequate to meet Article XIX compensation claims from footwear exporters. The bill limits the President's authority to reduce tariffs on non-rubber to no less than 90 percent of the existing MFN *ad valorem* rate and requires that these reductions be phased in over 5 years. This level of compensation is far from adequate to meet compensation claims from affected suppliers who would be likely to exercise their right to retaliate. For example, women's leather footwear is now subject to a 10 percent *ad valorem* rate. The bill thus allows for a total reduction of only one percentage point implemented over a 5 year period at a reduction of a mere 0.002 percentage point per year. This translates to a tariff savings of just $0.01 per year on a pair of $5.00 (F.O.B. value) shoes. Under Article XIX having found compensation to be inadequate, footwear exporters would be entitled to respond to the footwear quotas by placing equivalent restrictions on $6 billion in U.S. exports.

V. H.R. 1154 WILL UNDERMINE CHANCES FOR PROGRESS IN THE URUGUAY ROUND

In addition to violating the GATT and encouraging retaliation, H.R. 1154 will seriously undermine our chances for achieving greater market access and increased international discipline in the areas of intellectual property, services and investment in the Uruguay Round. Imposition of GATT-inconsistent unilateral footwear import restrictions under the bill would violate the United States' commitment to refrain from implementing new import restrictions and to liberalize existing restrictions under the Standstill and Rollback provisions of the Punta del Este Ministerial Declaration. This action by the United States would lead our trading partners to question the seriousness of the United States' commitment to the New Round.

The second way in which the bill would undermine the chances for progress in the Uruguay Round is that it prohibits the President from making any tariff reductions in non-rubber footwear tariffs in the New Round or in any other bilateral or multilateral negotiation outside of an Article XIX compensation negotiation. Tariffs on non-rubber footwear imports are one area in which U.S. tariffs remain relatively high. Developing countries will seek reductions in non-rubber footwear tariffs in the Uruguay Round. Therefore, in prohibiting any tariff cuts on non-rubber footwear, the bill removes an essential area of leverage that could be used by the President to gain greater access to developing country markets and to achieve progress in investment, services and intellectual property issues. Certainly, refusal to bargain in footwear would seriously weaken the United States position.

VI. CONCLUSION

For the foregoing reasons, FRA urges committee members to oppose H.R. 1154 and to instead continue their efforts to solve our trade problems by supporting responsible, generic trade legislation.

IBERC
INTERNATIONAL BUSINESS AND ECONOMIC RESEARCH CORPORATION
2121 K STREET, N.W.
WASHINGTON, D.C. 20037
(202) 955-6155

EXECUTIVE SUMMARY

ANALYSIS OF THE COSTS OF THE TEXTILE AND APPAREL TRADE ACT OF 1987

- The Textile and Apparel Trade Act of 1987 would further restrict U.S. textile and apparel imports to 1986 levels plus 1 percent annual growth and freeze nonrubber footwear imports at 1986 levels.

- The rigid category system imposed on the new footwear quotas would freeze the composition of footwear imports to 1986 patterns for the next 10 years, removing the flexibility of importers to respond to changing fashion and consumer demand. Consumers would be unable to purchase from abroad desired quantities of certain fabrics, apparel and footwear which domestic producers either cannot produce at all, or cannot produce at prices comparable to the imported product.

- Consumers would be forced to pay an estimated $10 billion a year at retail in higher prices to protect less than 47,000 textile, apparel and footwear jobs. The cost per job amounts to a surreal $223,000.

- Over 52,000 retail jobs would be lost due to decreased consumer spending on textile products, apparel and footwear whose prices would be inflated by the legislation. In fact, 5,700 more jobs would be lost in the retail sector than would be protected in the manufacturing sector.

- By 1996, when the first official evaluation of the legislation is required, consumers will have paid a total of $88 billion due to higher prices for a reduced supply of goods.

- The legislation would contribute to inflation by increasing textile and apparel import prices (up 6 percent) and domestic textile and apparel prices (up 2 percent), as well as footwear import prices (up 9 percent) and domestic footwear prices (up 10 percent). Lower income consumers would pay the heaviest penalty as product upgrading reduced or eliminated the availability of less expensive merchandise.

- The enactment of the legislation would slow overall economic growth, harm the competitiveness of U.S. export industries, ultimately reduce the competitiveness of the U.S. textile/apparel and footwear industries, invite retaliation on up to $29 billion of U.S. exports and potentially affecting more than 700,000 jobs in export industries, and undermine U.S. objectives of achieving greater market access in the Uruguay Round.

TABLE 1

PER CAPITA1/ APPARENT DOMESTIC CONSUMPTION OF NON-RUBBER FOOTWEAR: TOTAL AND FOR SELECTED PRODUCT GROUPS
(Volumes in million pr, per capita in pr)

	Apparent Domestic Consumption2/		Imports Under $5.00/pr3/		Athletic Imports	
YEAR	VOLUME	PER CAPITA1/	VOLUME	PER CAPITA1/	VOLUME	PER CAPITA1/
1981	736.2	3.2	159.3	0.7	57.3	0.3
1982	829.7	3.6	209.9	0.9	87.0	0.4
1983	913.4	3.9	267.0	1.1	88.0	0.4
1984	1020.0	4.3	318.2	1.4	121.6	0.5
1985	1096.8	4.6	373.4	1.6	175.0	0.7
1986	1162.2	4.8	414.9	1.7	230.8	1.0

1/ Based on resident U.S. population at July 1 of each year.
2/ U.S. production minus exports plus imports.
3/ Except athletic.
SOURCE: Official data of the U.S. Department of Commerce.

Table 2

U.S. Imports of Athletic Footwear by Price Point and Upper

	1983		1984		1985		1986	
Categories	Volume (000 PR)	Import Share (%)	Volume (000 PR)	Import Share (%)	Volume (000 PR)	Import Share (%)	Volume (000 PR)	Import Share (%)
Under $2.50/pair								
Leather	1,727	0.3	1,172	0.3	2,704	0.3	3,010	0.3
Plastic	823	0.1	1,751	0.2	1,789	0.2	2,596	0.3
Over $2.50/pair								
Leather	77,485	13.3	109,040	15.0	152,214	18.1	174,136	18.5
Plastic	8,001	1.4	8,580	1.2	18,278	2.2	51,052	5.4
TOTAL	88,036	15.1	121,543	16.7	174,985	20.8	230,794	24.5

Source: Official data of U.S. Department of Commerce

Chairman GIBBONS. Thank you.

Our last witness for today represents the National Shoe Retailers Association.

STATEMENT OF WILLIAM BOETTGE, PRESIDENT, NATIONAL SHOE RETAILERS ASSOCIATION

Mr. BOETTGE. Thank you, Mr. Chairman. Members of the subcommittee, my name is William Boettge. I am president of the National Shoe Retailers Association, an organization which this year celebrates its 75th anniversary as the representative of more than 3,000 independent shoe retailers who operate more than 20,000 shoe store locations nationwide. These family-run enterprises account for a great percentage of all the footwear sold in this country, and most of the domestic made footwear.

I am here this afternoon to express our concern and opposition to the Textile and Apparel Trade Act of 1987, which we believe would have an adverse impact on these 3,000 independent shoe retailers who are primarily small businessmen and women.

Let me make it clear, though, at the outset that the independent shoe retailer wants and needs a healthy and viable domestic manufacturing shoe industry. Helping to sustain a productive and profitable industry is in the best interest of the nation as a whole, of our customers, and of our retail companies. National Shoe Retailers Association members are the best customers of the domestic industry.

Therefore, legislation that, in theory, helps this domestic industry should be good for the independent shoe retailer, but analysis and history show that, in fact, the following would happen:

No. 1, the quotas imposed would cause dramatic increases of both imported and domestic footwear consumer prices.

No. 2, the bill would freeze product mix, and this lack of flexibility would make it impossible to respond to changes in consumer demand. This would be a particular hardship on the smaller retailer who does not have the buying power and would be blocked out of faster growth categories.

No. 3, the delegation of administrative authority to the Department of Commerce in H.R. 1154 directs the Department to prescribe "such regulations as may be necessary or appropriate for the efficient and fair administration" of the footwear quota provisions in this bill. NSRA believes that such an open-ended grant of regulatory authority is unwise and would work a competitive hardship on the independent shoe retailer. We are frankly troubled by recent public discussion that quotas would be auctioned off to the highest bidder or that a complex system of import licensing should be instituted in order to fairly and equitably administer an import quota system. Neither system is either fair or equitable, and the loser is bound to be the small, independent retailer who would not be able to compete for his share of imports, either by an auctioning or a licensing system. Either way, the big just get bigger, leaving the manufacturers to go on with their vertical integration, with the independent shoe retailer on the outside.

Finally, No. 4, footwear retailing has grown to a $24 billion industry, with consumption increasing in the last 3 years to approximately 4.5 pair per capita, against a 15-year flat figure of around four pair per capita. This has resulted from changing consumer preference, and our ability as retailers to react to this change in preference in an open market. This legislation would limit that choice and increase prices and put many of the retailers' establishments and their employees out of business.

Thus, while the independent retailers are the best customers of the domestic industry, and we need and want a strong domestic industry, H.R. 1154 is not the answer.

Thank you for permitting us to testify.

[The statement of Mr. Boettge follows:]

STATEMENT OF
WILLIAM BOETTGE, PRESIDENT,
NATIONAL SHOE RETAILERS ASSOCIATION
TO THE SUBCOMMITTEE ON TRADE
HOUSE COMMITTEE ON WAYS AND MEANS
CONCERNING
THE TEXTILE AND APPAREL TRADE ACT OF 1987 (H.R. 1154)

Mr. Chairman, members of the Subcommittee, my name is William Boettge. I am President of the National Shoe Retailers Association, an organization which this year celebrates its 75th anniversary as the representative of more than 3,000 independent shoe retailers who operate more than 20,000 store locations nationwide. These family-run enterprises account for nearly one-half of all of the footwear sold in this country.

Before joining the NSRA staff in 1984, I was active in shoe retailing, operating a company with more than 36 shoe stores in five Midwestern states.

I am here this morning to express our concern with and opposition to some of the provisions in The Textile and Apparel Trade Act of 1987, which we believe would have an adverse impact on the independent shoe retailer.

Let me make clear at the outset that the independent shoe retailer wants and needs a healthy and viable domestic footwear manufacturing industry. Helping to sustain a productive and profitable industry is in the best interest of the nation as a whole, of our customers, and of our own retail companies. NSRA members are the best customers of the domestic footwear industry, and we would like to keep it that way.

Our job as retailers is to be the customer's purchasing agent. Our success depends on finding merchandise which appeals to American consumers, at a price which gives them value for every dollar expended.

Retailers have no inherent preference for imports over domestically-produced shoes. Our preference is for access to all markets, because often overseas manufacturers are able to fill a need. Sometimes that need is price. Sometimes it's quality. Sometimes its fashion. Whatever the need, merchandise produced abroad adds variety, value and choice for the American customer.

I am well aware that we are accused of fighting import restrictions in order to protect higher margins we supposedly get on imports. In response, I would have to point out that retailing is one of the most price competitive industries in the world.

If a retailer's profit margins get out of line, someone down the street will come along and cut the price. Indeed, if there were any correlation between footwear imports and profit margins, 1986 should have been a banner year for retail profits, because imports were up dramatically. That certainly was not the case.

Just like the marketplace will ultimately dictate the price at which shoes are sold, it will also dictate the style and the quality and the value of the shoes which are sold at retail for the remainder of this decade.

And it is the ability to perceive changing consumer desires and wants which will dictate which domestic manufacturers survive the decade of the 1980's and which ones grow and prosper.

It is NSRA's belief that the major reason that many manufacturers have failed in the last 15 years is not imports *per se*, but the failure of these manufacturers to grasp the changing pattern of footwear consumption, the change from utilitarian to "ego-intensive" product. The footwear manufacturer of 20 years ago, indeed of a decade ago, could have survived with a few major styles produced in a long production run. No more. Footwear fashion is constantly changing and evolving and the successful manufacturer is one which keeps his finger on the pulse of the retail industry, who talks to his retail customers, who visits with consumers, who understands these changing life-styles and the resulting changing trends in shoe consumption.

Despite our preference for the free market system, many of NSRA's members believe that it may well be time to control the level of footwear imports. Thus, the freeze on footwear imports at current levels has some appeal for our members, who rely heavily on brand-name merchandise which is largely the product of domestic manufacturers. Helping to sustain them will, in the long run, help to sustain the independent shoe retailer.

However, there are a number of provisions in H.R. 1154 pertaining to these footwear import quotas which are extremely troublesome to the independent retailer. They include:

(1) The permanent nature of the import quotas on footwear. It is our belief that "forever" is a long time, and that footwear quotas should not be imposed without some kind of review in a period shorter than that contemplated in H.R. 1154. Much has happened to the footwear industry in the last 10 years and it's safe to predict that the forces of fashion and distributional change will continue to operate for the next decade. Quotas imposed for a ten-year period without review, as they would be under H.R. 1154, does not permit the industry to adequately adapt to change.

(2) The delegation of administrative authority to the Department of Commerce. H.R. 1154 directs the Department to prescribe "such regulations as may be necessary or appropriate for the efficient and fair administration" of the footwear quota provisions in this bill. NSRA believes that such an open-ended grant of regulatory is unwise and would act to work a competitive hardship on the independent shoe retailer. We're frankly troubled by recent public discussion that quotas should be auctioned off to the highest bidder, or that a complex system of import licensing should be instituted in order to "fairly and equitably" administer an import quota system. Neither system is either "fair" or "equitable" and the loser is bound to be the small, independent retailer who would not be able to compete for his "share" of imports under either an auctioning or a licensing system. Either way, the big just get bigger and the manufacturers just go on with their vertical integration, leaving the independent shoe retailer on the outside.

Numerous studies have shown that import quotas cost money, and that the people who end up paying that cost are American consumers.

Thus, Mr. Chairman, while we oppose the quota provisions in H.R. 1154, let me state again that we are strongly in support of a healthy and viable domestic footwear industry. We will continue to do all in our power to work with our vendors to be sure that they understand the changing nature of consumer desires for footwear, and that they respond to those changes accordingly. But we firmly believe that quotas, which may help domestic manufacturers in the short run, will only hurt them, and, to a greater extent, independent retailers and the American consumer in the long run.

Chairman **Gibbons**. Thank you all for coming here and waiting so patiently today. Let us go first to the textile part, and I appreciate your supplying us these charts. They are helpful in understanding the situation.

You say the source of the first one is the Textile Organon?

Mr. **Samolis**. Organon. That is the publication of the Textile Economics Bureau, Mr. Chairman, which is, I think fairly stated, an industry-accepted source of reliable data on the textile and apparel industry.

Chairman **Gibbons**. Now, you are attempting to show us there that if we enact a textile bill as it is before us that we will immediately start running a shortage, and that on the basis of the 1982 to 1986 performance we will start off running an annual shortage of around 9 percent. Is that right?

Mr. **Samolis**. Right. Mr. Chairman, what it shows is that the market itself, in terms of compound annual growth over all textile and apparel products for the period 1982 to 1986, has been far in excess of 1 percent. The allegation that the 1-percent growth is really following the growth in the domestic market is demonstrably in error if you take a look at that chart.

You are really saying, that under this bill, the imports are going to be limited to the 1-percent figure, while, in fact, the actual growth in consumption, based on any number of these periods shown on this chart, are in every instance far in excess of 1 percent.

Chairman **Gibbons**. Well, let me ask you, is this chart in dollars or in square-yard equivalents or in pounds or what?

Mr. **Samolis**. The chart is in millions of pounds.

Chairman **Gibbons**. The chart is in millions of pounds.

Mr. **Samolis**. In other words, the table that is supplied in the Textile Organon, is based on U.S. mill consumption of fiber and domestic consumption of fiber products expressed in terms of millions of pounds. This is as a percent of consumption.

Chairman **Gibbons**. This is textiles and apparel by weight.

Mr. **Samolis**. Right.

Chairman **Gibbons**. I know we measure them in square-yard equivalents and we measure them in dollars, and we also measure them by weight. This is in weight. OK.

I imagine the next one on textile profitability is in dollars, and it does seem to be doing very well in 1986. It did not do so well in 1985. I imagine it has had its down side before 1985, too, did it not?

Mr. **Samolis**. Yes. This chart was indexed to the beginning of 1985, since what we are really doing is analyzing what has happened to the industry since the introduction of H.R. 1562, the textile quota bill from the 99th Congress.

Chairman **Gibbons**. And that is over the national average for manufacturing industry in the United States.

Mr. **Samolis**. Yes. This afternoon I was given a copy of the staff data, and I think that is confirmed by their figures, too.

Chairman **Gibbons**. Whether it is by sales or whether it is by equity?

Mr. **Samolis**. By percent of equity.

Chairman **Gibbons**. This is on an equity basis.

Mr. **Samolis**. Right.

Chairman GIBBONS. All right. This third chart is one I had really overlooked, the one on industrial production, 1985–87, textile industry versus all manufacturing. Is that a growth in capacity? Is that what we are looking at?

Mr. SAMOLIS. No. What was done in this chart, Mr. Chairman, was to take the baseline data of the first quarter of 1985—again, starting with the beginning of 1985 when H.R. 1562 was introduced—and indexing that figure, whatever it was, to 100. And then the performance in every quarter after the first quarter of 1985 is indexed to whatever was equivalent to 100 in the first quarter of 1985.

Mr. SCHULZE. Mr. Chairman, may I ask a question on the chart while we are on it, if you will yield?

Chairman GIBBONS. Yes.

Mr. SCHULZE. Can you tell me how this relates to apparel production, or is this just the production of textiles, yard goods and so forth? Or is this production of apparel as well?

Mr. SAMOLIS. This is just textiles. There is no index for apparel, no equivalent to what is in this chart. This is solely textiles.

Mr. SCHULZE. Do you have any comment on apparel? Is apparel's ratio about the same?

Mr. SAMOLIS. Let me ask Mr. Tom Emrich, who is our economist, to comment on that. He put together the chart.

Mr. EMRICH. The Federal Reserve had industrial production index data up through about the middle of 1986. They appear to be revising it because they have not come forth with data for the last 6 months. But it was expanding in the first half of 1986 over the similar period in 1985. I might note that apparel employment in the industry is also rising in the last half of 1986. So there is probably an equivalent rise, maybe not equivalent to textiles, but it is a positive growth rate.

Mr. SCHULZE. The reason I asked the question is if apparel was lagging behind, the differential must be exports. Am I correct or not?

Is that a rational conclusion?

Mr. SAMOLIS. I am sorry, Mr. Schulze.

Mr. SCHULZE. The reason I ask the question is if apparel is lagging behind total production, the differential should be, or in my opinion must be exports. Is that correct?

Mr. EMRICH. No, Mr. Schulze. Apparel accounts for about 40 percent of the textile fiber consumption in this country. You have two other major areas, one being the textile industrial product sector, and the other being the textile home furnishing sector. Those two also may be growing rapidly.

Mr. SCHULZE. Do we have any gross figures on utilization in those categories?

Mr. EMRICH. I can prepare some, yes. It is possible to break down the market into its major component parts and see how they are doing.

Mr. SCHULZE. I thank you for yielding, Mr. Chairman.

Chairman GIBBONS. Essentially what you are trying to show us here is that, as I understand it, textile manufacturing has done better than all other manufacturing in the United States or all manufacturing?

Mr. **Samolis**. That is correct.

Chairman **Gibbons**. In both growth and utilization of facilities?

Mr. **Samolis**. That is right.

Chairman **Gibbons**. And as I recall, there was also a figure in someone's testimony that there was an actual growth in capacity. Is that correct? Has there been an actual growth in textile capacity in the United States?

Mr. **Emrich**. According to the Federal Reserve, again, they have a measure of capacity, and there has been a slight increase in capacity in the last several years.

Chairman **Gibbons**. All right. Now, going to shoes—and I will be brief, because we have got to vote. I do not have any foreign shoes in my closet, and as I said, I stay out of Mrs. Gibbons' closet. And she will not let me go shopping with her anymore because every place I go I look at labels, and it is getting embarrassing to her with me always looking at labels. I also look at prices, but I really pretend to look at labels all the time.

What causes all these ups and downs in the shoe industry? Is it cheap shoes or is it style or is a combination of cheap and style? Or is it just women's or what is it?

Mr. **Mangione**. Mr. Chairman, I think that the best answer to your question is that the overriding, most dominant factor affecting footwear consumption in the United States has been the life style change which has resulted in a massive increase in purchases of athletic footwear. Athletic footwear now accounts for about 30 percent of all shoes purchased in America, up from about half of that about 10 years ago.

Virtually all of these shoes, as was noted earlier, are made overseas, and a huge growth in recent years—in the last 2 or 3 years—has been in athletic footwear. That accounts for the bulk of the growth.

The other growth is in very, very low-priced shoes—shoes which have a retail price of around $10. These shoes were kept out of the market during the quota period from 1977 to 1981. Following the expiration of the quotas in 1981, they began to fill the consumer's need in the country for that product. They have come in in huge quantities. Again, it is a product that really is not manufactured by U.S. producers at all. And if this bill were to become law, these, of course, would be the shoes that would be kept out, the lowest priced shoes and the athletic shoes—neither of which are made by the U.S. industry.

Chairman **Gibbons**. Thank you.

Mr. Frenzel.

Mr. **Frenzel**. Frank, frankly I am confused by chart No. 2, where you show growth in consumption, actual growth in consumption of 9.88 percent over 4 years. Is that what it shows?

Mr. **Samolis**. Yes. That is for the period 1982 to 1986.

Mr. **Frenzel**. How many years did it take for you to find that to show that amount of growth? When we look at other measures—dollars, more particularly, square-yard equivalents—growth rates come out much less than that. I guess if I were you I would have looked for the biggest number I could find, too, but clearly it does seem to me like that does not imply reality. And we have got to look for the actual growth probably in some kind of adjusted dollar figure, or perhaps in square-yard equivalents. And my guess is it will be much less than half of that. I have just gone through Commerce's figures, and it looks in square-yard equivalents that you are talking less than 7 percent growth in textiles and less than 5 percent growth in apparel. Does that conform to figures that you found while you were looking for this gee-whiz number?

Mr. Samolis. Well, this is a chart based on data that is really generated for the industry in the Textile Organon. It is a very standard way of calculating mill consumption. They do it on a regular basis through the Textile Organon data. And it was through this chart that we wanted to demonstrate what the effect of this one-percent cap is on a category-by-category basis based on annualized compound consumption.

Mr. Frenzel. Well, our problem is one that the chairman delineated a moment ago when one of the witnesses claimed that he was giving half of the market away to foreign competitors, when the largest number we could find was 31 percent.

Chairman Gibbons. Mr. Pease.

Mr. Pease. Mr. Chairman, I just have a couple of questions.

Our colleague, Barney Frank, mentioned this morning that we would do well to be skeptical about figures of employees losing jobs at the retail level.

You told us this morning, Mr. Gould, that passage of this bill would result in the loss of 52,000 jobs in retailing of garments. And Mr. Mangione, you told us that there would be 22,000 jobs lost in the footwear industry.

Do you stand by those figures?

Mr. Gould. Absolutely.

Mr. Pease. You say 52,000 in the retail garment industry.

How many jobs are there, 52,000 out of what?

Mr. Gould. 15 million.

Mr. Pease. 15 million jobs.

Mr. Gould. Right.

Mr. Pease. Okay. Now, that's a relatively small percentage. And the assumption there is that if the bill is passed, shoes will be higher priced and there will be fewer shoes bought, or fewer garments or shoes, either one, fewer bought and, therefore, the retailers will need fewer employees, is that correct?

Mr. Gould. There will not only be fewer bought, but they will be more costly.

Additionally, you are limiting the consumer's choice. And our business is driven by the consumer, not the manufacturer.

Mr. Pease. Okay. I want to talk to Mr. Gould and I want to talk to all of you.

Mr. Gould, you said you prefer domestically produced goods to imports. Why is that?

Mr. Gould. Why?

Mr. Pease. Yes. Why?

Mr. Gould. Because I have got a shorter lead time. I have got more control domestically than I do on a foreign market.

With our domestic manufacturers, we have the ability to work closer as opposed to doing it offshore where we may have anywhere from a 6-month to an 18-month lead time on a garment.

Mr. Pease. I see. Does patriotism come in there anywhere?

Mr. GOULD. I think patriotism is very important, and I certainly would prefer to buy domestically.

Mr. PEASE. How about in your advertising in marketing, do you make any effort to encourage consumers to buy American products rather than foreign products?

Mr. GOULD. We do not do so specifically within our advertising. We do more so when our merchandise is mixed.

Again, the ultimate consumer is going to vote on the goods as to whether they are imported or domestic. We are not.

Mr. PEASE. Well, whenever we get into a discussion with the Japanese, we are always told that a big difference between Japan and the United States is the Japanese are very loyal to Japanese products. And even if we gave our products away, they would probably——

Mr. GOULD. I don't think that's true. I don't think they are given a choice.

Mr. PEASE. You don't?

Mr. GOULD. No, sir.

Mr. PEASE. Well, that may be the case. But I just keep wondering why U.S. retailers of shoes and garments don't do more to try to help the United States by promoting the concept of brand loyalty for American products.

Mr. GOULD. We do, for a fact, work in that direction. Again we work on very short profit margins.

You were talking about a pretax return on equity for the apparel manufacturers of around 25 percent. The return on equity after tax for the department store averages around 12 percent. And as a percent of sales, we work on a 3 to 4 percent margin, profit margin after tax.

Mr. PEASE. I see. OK.

Well, I want to thank you. We have got a vote on. We only have about a minute and a half so we are going to have to run. But thank you very much for your testimony.

Thank you, Mr. Chairman.

Mr. GOULD. Thank you, sir.

Chairman GIBBONS. That completes today's hearing.

[Whereupon, at 2:20 p.m., the hearing was adjourned, to reconvene at 9:30 a.m., Monday, May 18, 1987.]

TEXTILE AND APPAREL TRADE ACT OF 1987

MONDAY, MAY 18, 1987

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The subcommittee met, pursuant to adjournment, at 9:30 a.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman **Gibbons**. The Subcommittee on Trade resumes its hearings today on H.R. 1154, the Textile and Apparel Trade Act of 1987.

In summary, this legislation would mandate global quotas on imports of each product category of textiles and apparel and nonrubber footwear beginning in 1987. Quotas on textile products would be allowed to grow at an annual rate of 1 percent over 1986 import levels, but footwear quotas would be permanently fixed at the 1986 level. No country's products are exempt from coverage. The quotas would be permanent in duration. The President would be required under the bill to report to Congress annually on the administration of the quota program and undertake a full review after 10 years.

On May 7 the Trade Subcommittee received testimony on this bill from its sponsors, members of the textile caucus, from the domestic manufacturers and workers in the textile and footwear industries; from domestic retailers, as well as from State and local elected officials.

Today we will hear testimony from the administration; from workers and firms in the apparel industry, the footwear industry, the fashion accessories industries; and from those whose livelihood directly depends upon expanded international trade.

Many individuals and organizations have requested to testify before the subcommittee on this subject. We regret that we are unable to schedule everyone who indicated an interest to testify. However, we encourage all those who have not been scheduled to submit statements to the subcommittee indicating their views on this bill. These, of course, will be included in the record along with the statements from the witnesses.

Today's first set of witnesses are two distinguished representatives from the administration, the Deputy U.S. Trade Representative, Ambassador Michael Smith, and the Under Secretary of Commerce for International Trade, Mr. Bruce Smart.

We welcome you gentlemen here today. And, Mr. Smith, we will hear from you first, then we will hear from Mr. Smart and then we will ask you a few questions.

STATEMENT OF HON. MICHAEL B. SMITH, DEPUTY U.S. TRADE REPRESENTATIVE

Ambassador SMITH. I have submitted a complete text of my testimony and I would, if you permit, suggest——

Chairman GIBBONS. Without objection your statement and all other statements submitted today will be included in full in the record.

Ambassador SMITH. Thank you for giving me the opportunity to appear before you to express the administration's concerns about H.R. 1154. I am accompanied this morning by Mr. Ron Sorini and Miss Liz Cummings of the USTR Textile Office, should there be questions of a detailed nature.

Let me begin by stating that the U.S. textile and apparel industries simply do not need this legislation. These industries, and especially the textile sector, made a strong showing during 1986, and that trend is continuing in 1987. Domestic textile production increased 10 percent in 1986, while apparel production was up 3 percent. U.S. textile exports were up 13 percent in 1986 and apparel exports increased 22 percent. Textile industry profits rose 67 percent in 1986. Capacity utilization in the textile industry was at 94.3 percent in February 1987, compared to 80.1 percent for all U.S. manufacturing industries and was well above the 84.9 percent average posted by the textile industry itself during the period from 1967 to 1986. At the same time, the capacity index, which measures capacity as a percentage of 1977 output, is at an all-time high of 123.7. And by March 1987 employment had increased by 20,000 jobs. Unemployment in the major textile and apparel producing States is lower than the national average. New textile and apparel plants are opening. On the basis of this, I have a hard time characterizing the textile and apparel industry as an industry in need of extra protection.

A quick look at some of the headlines which have appeared in the trade press in the past few months confirms this. To cite but a few:

"Increase in South Carolina Apparel Jobs Seen Continuing; New Plants on Horizon"; "Swift Textiles to Expand, Up Denim Output by 50%"; "Say Use of US-Grown Cotton to Hit 10-Year High in '87"; "Prices on Various Fabrics Shoot Upwards as Scarcity Continues"; "Prices Continue to Rise as Demand Persists; Mills Pressed for Deliveries"; "DuPont Fiber Net Jumps 79.3% in First Quarter"; "Springs Industries Earnings Up 93% in First Quarter."

I could continue, but I think the message is clear: This is not the ailing industry we are led to believe it is. On the contrary, it is an industry which cannot keep up with demand for its products. An acceleration of consumer spending on textiles and apparel and the decline of the dollar in world currency markets make domestically produced goods more competitive coupled with the restrictive new bilateral agreements we have negotiated in the past year are resulting in an extremely tight market for textiles and apparel, especially for certain cotton fabrics. While imports of textiles and apparel have increased 15 percent, this is due to the strong demand for both imported and domestically produced goods. Domestic producers are simply unable to meet all of the domestic demand because with capacity utilization at almost 95 percent, there simply is not room to expand production in the short term.

Aggregate textile industry output is the highest ever in the fourth quarter of 1986. Domestic cotton consumption was up 15 percent in 1986 and is expected to increase further in 1987. The United States now has 29 percent of the world's market and a near record of 23 million bales.

American producers would appear simply unable to obtain the materials needed for their production because of the restrictive quotas we have negotiated at the request of the domestic industry. At the same time, as I have noted already, American textile exports increased 13 percent in 1986 and apparel exports increased by 22 percent, measured on a value basis. 1986 textile and apparel exports were at the highest levels since 1982.

This brings me to another key element: what this administration has done to assist the U.S. industry. Let me reiterate that the administration has been and remains deeply concerned with the condition of the U.S. industry. In response to the concerns of the industry, last year we renegotiated a stronger multifiber arrangement to extend coverage to virtually all textile and apparel products by including previously uncontrolled fibers such as ramie, linen and silk blends. We also broadly expanded our ability to control imports by reopening our bilateral agreements with Hong Kong, Taiwan, and Korea, and negotiating tough new agreements with comprehensive coverage of all fibers and caps on overall textile exports to the United States to prevent import surges. We also negotiated a new agreement with Japan limiting growth of its textile and apparel exports to a nominal amount. As a result, overall textile and apparel trade from these four countries, which account for 40 percent of all textile and apparel imports into the United States, will increase less than 1 percent annually.

All of this adds up to a complex system of some 1,500 quotas, 200 of which were negotiated or imposed in 1986 alone, contained in 39 bilateral textile agreements. Approximately 80 percent of low-priced imports are controlled by quotas. All of this is in addition to maintaining textile and apparel tariffs averaging nearly 18 percent, as compared to 3 percent for all other industries. As a result, our textile and apparel industries are already benefiting from some of the highest tariffs and the most comprehensive quotas available to an American industry.

Passage of this bill would certainly provoke retaliation against our exports just as we are beginning to see an increase in U.S. exports as a result of the lower dollar. The bill would harm most of our major trading partners.

The European Community already has indicated it will retaliate, pointing out that European imports of U.S. textiles and apparel increased 45 percent in 1986 at the same time as the European Community is absorbing substantially higher imports from our developing country suppliers. On the other hand, our imports of textiles and apparel from the European Community are declining.

Other trading partners will surely follow the European example.

The compensation provisions of the bill are simply not adequate to remedy the damage it would cause. The only compensation the bill allows for is a 10-percent reduction of the duties on footwear, textiles and apparel. This would mean, for example, that the duties would move from an average of 18 percent to about 16.2 percent over a 5-year period.

This legislation is clearly inconsistent with the principles of GATT. GATT permits countries to provide temporary relief only after a finding, with respect to each product subject to relief, that increased imports of that product have caused serious injury to domestic producers of that item.

The bill, on the other hand, substitutes for this item-specific analysis a broad congressional finding that increased textiles, apparel and footwear imports are causing or threatening serious injury to the respective industries generally. Thus the bill provides for permanent protection to three entire industries while bypassing established U.S. procedures, under section 201 of the Trade Act of 1974, for taking GATT-legal safeguards measures.

Here at home the bill would have a tremendous impact on American consumers, especially those in the lower and middle income brackets, by raising costs and limiting consumer choices significantly.

The Council of Economic Advisers estimates that the consumer costs of the restrictions imposed by the bill would range from approximately $25 to $37 billion over 5 years. The bill would also result in loss of American jobs in the retail sector.

The consumer cost per net job saved will rise from $32,894 in 1987 to $41,561 in 1991, as the effects of the bill become more restrictive each year. All of these calculations were done based on wholesale prices, without including retail markup. Even so, the cost to the American consumer will be quite staggering.

In summary, Mr. Chairman, we cannot accept H.R. 1154, which breaks the rules, undermines our credibility internationally, provokes retaliation and hurts consumers, in order to provide complete and permanent import protection for that already well-protected industry.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you.

[The statement of Ambassador Smith follows:]

STATEMENT OF MICHAEL B. SMITH, DEPUTY U.S. TRADE REPRESENTATIVE

Thank you for giving me the opportunity to appear before you to express the Administration's concerns about the Textile and Apparel Trade Act of 1987.

Let me begin by stating that the U.S. textile and apparel industries simply do not need this legislation. These industries, and especially the textile sector, made a strong showing during 1986, and that trend is continuing in 1987. Domestic textile production increased 10 percent in 1986, while apparel production was up 3 percent. U.S. textile exports were up 13 percent in 1986 and apparel exports increased 22 percent. Textile industry profits rose 67 percent in 1986. Capacity utilization in the textile industry was at 94.3 percent in February 1987, compared to 80.1 percent for all U.S. manufacturing industries and was well above the 84.9 percent average posted by the textile industry itself during the period from 1967 to 1986. At the same time, the capacity index, which measures capacity as a percentage of 1977 output is at an all time high of 123.7. And by March 1987, employment had increased by 20,000 jobs. Unemployment in the major textile and apparel producing states is lower than the national average. New textile and apparel plants are opening. On the basis of this, I have a hard time characterizing the textile and apparel industry as an industry in need of extra protection.

A quick look at some of the headlines which have appeared in the trade press in the past few months confirms this. To cite but a few—

"Increase in South Carolina Apparel Jobs Seen Continuing; New Plants on Horizon";
"Swift Textiles to Expand, Up Denim Output by 50%";
"Say Use of US-Grown Cotton to Hit 10-Year High in '87";
"Prices on Various Fabrics Shoot Upwards as Scarcity Continues";
"Prices Continue to Rise as Demand Persists; Mills Pressed for Deliveries";
"DuPont Fiber Net Jumps 79.3% in First Quarter";
"Springs Industries Earnings Up 93% in First Quarter";

I could continue but I think the message is clear: this is not the ailing industry we are led to believe it is. On the contrary, it is an industry which cannot keep up with demand for its products. An acceleration of consumer spending on textiles and apparel and the decline of the dollar in world currency markets making domestically produced goods more competitive coupled with the restrictive new bilateral agreements we have negotiated in the past year are resulting in an extremely tight market for textiles and apparel, especially for certain cotton fabrics. While imports of textiles and apparel have increased 15 percent, this is due to the strong demand for both imported and domestically produced goods. Domestic producers are simply unable to meet all of domestic demand because with capacity utilization at almost 95 percent, there simply is not room to expand production in the short term.

The inability of domestic producers to meet demand has resulted in an increase in prices and shortages of some items, causing importers to turn to previously unheard of suppliers, such as Zimbabwe, to meet their production needs. For example, I know of two cases where American manufacturers were seeking to use American-made denim in their production were unable to come up with an American denim manufacturer who could fill the orders. The American manufacturers had no choice but to turn to foreign-made goods to continue production. In other instances, however, American producers are simply unable to obtain the materials needed for their production because of the restrictive quotas we have negotiated at the request of the domestic industry. At the same time, however, American textile exports increased 13 percent in 1986 and apparel exports increased by 22 percent, measured on a value basis. 1986 textile and apparel exports were at the highest levels since 1982.

This brings me to another key element: what this Administration has done to assist the U.S. industry. Let me reiterate that the Administration has been and remains deeply concerned with the condition of the U.S. industry. In response to the concerns of the industry, last year we renegotiated a stronger Multifiber Arrangement to extend coverage to virtually all textile and apparel products by including previously uncontrolled fibers such as ramie, linen and silk blends. We also broadly expanded our ability to control imports by reopening our bilateral agreements with Hong Kong, Taiwan and Korea and negotiating tough new agreements with comprehensive coverage of all fibers and caps on overall textile exports to the U.S. to prevent import surges. We also negotiated a new agreement with Japan limiting growth of its textile and apparel exports to a nominal amount. As a result, overall textile and apparel trade from these four countries, which account for 40 percent of all textile and apparel imports into the U.S., will increase less than one percent annually.

In addition, within the last year we negotiated agreements with some of our mid-level suppliers, such as India, Pakistan and Malaysia which limit their textile and apparel exports to the U.S. to about 6 percent annual growth. The agreements we have negotiated in the past several years will help limit overall growth in imports.

All of this adds up to a complex system of some 1500 quotas, 200 of which were negotiated or imposed in 1986 alone, contained in 39 bilateral textile agreements. Approximately 80 percent of low-priced imports are controlled by quotas. All of this is in addition to maintaining textile and apparel tariffs averaging nearly 18 percent, as compared to three percent for all other industries. As a result, our textile and apparel industries are already benefitting from some of the highest tariffs and the most comprehensive quotas available to an American industry. During the past year we also were able to reduce some of the barriers American exports face in foreign markets. Taiwan reduced significantly a number of tariffs on textile and apparel products and Korea has agreed to phase out its system of import licensing.

Our system of quotas and the tight overall controls on products imported from our larger suppliers definitely has had an effect in curbing imports—perhaps, in the view of some, too much of an effect. Since signing the agreements with Taiwan, Korea, Hong Kong and Japan we have received literally hundreds of requests for quota exemptions or waivers. These requests come from companies who, due to the tight overall caps on trade from these suppliers, suddenly find themselves unable to import goods not available in the U.S. We also have received a number of requests from Members of Congress, many of whom supported last year's textile legislation, on behalf of their constituents. We have been unable to comply with most of those requests because the domestic textile and apparel industry representatives with whom we consult are, in most cases, vehemently opposed to granting exceptions for such cases and charge that we are not enforcing our bilateral agreements when we grant waivers. So it is a case of the Administration being damned when we do and damned when we don't. It is unfortunate that in our efforts to protect domestic textile and apparel manufacturers, we are inadvertently harming other American businesses but this is a classic example of the inherent shortcomings of protectionist legislation.

Passage of this bill certainly provoke retaliation against our exports just as we are beginning to see an increase in U.S. exports as a result of the lower dollar. The bill would harm most of our major trading partners. The European Community already has indicated it will retaliate, pointing out that European imports of U.S. textiles and apparel increased 45 percent in 1986 at the same time as the European Community is absorbing substantially higher imports from our developing country suppliers. On the other hand, our imports of textiles and apparel from the European Community are declining.

Other trading partners will surely follow the European example. Some of our most sensitive and competitive export industries, such as agriculture and high technology, are likely targets for retaliation. The compensation provisions of the bill are simply not adequate to remedy the damage it would cause. The only compensation the bill allows for is a ten percent reduction of the duties on footwear, textiles and apparel. This would mean, for example, that the duties would move from an average of 18 percent to about 16.2 percent. These reductions will be insignificant given that these products will all be under tight quota restrictions.

I am especially concerned about the potential damage to the Uruguay Round of trade negotiations, just getting underway in Geneva. These negotiations represent our best opportunity for enhancing U.S. exports. Passage of this legislation would precipitate a confrontation with our major trading partners and would undercut our negotiating credibiltiy at this crucial juncture by calling into question our ability to honor our existing international obligations, such as the General Agreement on Tariffs and Trade, and Multifiber Arrangement and our bilateral textile agreements. All of these obligations would be violated if this legislation were to be enacted.

This legislation is clearly inconsistent with the principles of GATT. GATT permits countries to provide temporary relief only after a finding, with respect to *each* product subject to relief, that increased imports of that product have caused serious injury to domestic producers of that item. The bill, on the other hand, substitutes for this item-specific analysis a broad Congressional finding that increased textiles, apparel and footwear imports are causing or threatening serious injury to the respective industries generally. Thus the bill provides for permanent protection to three entire industries while bypassing established U.S. procedures (under Section 201 of the Trade Act of 1974) for taking GATT-legal safeguards measures.

The bill also would violate the MFA by setting global and unilateral, rather than bilateral and negotiated, quotas. The MFA provides for unilateral restraints only if a particular product from a particular country is causing market disruption and only after the importing and exporting countries are unable to agree within a specified time frame on a negotiated level. The bill is all encompassing, with no such test for market disruption. The bill also would force us to violate many, if not all, of our bilateral textile agreements by precluding our trading partners from utilizing the individual restraint levels negotiated under those agreements. For a country as important in world textile trade as the United States to take the actions proposed in the bill would undermine the MFA and destroy our international credibility.

Here at home the bill would have a tremendous impact on American consumers, especially those in the lower and middle income brackets, by raising costs and limiting consumer choices significantly. As I noted earlier, we already are seeing the effects on price and supply when the domestic industry is unable to meet domestic demand. The Council of Economic advisers estimates that the consumer costs of the restrictions imposed by the bill would range from approximately $25 billion to $37 billion over five years. The bill would also result in loss of American jobs in the retail sector. The consumer cost per net job saved will rise from $32,894 in 1987 to $41,561 in 1991, as the effects of the bill become more restrictive each year. All of these calculations were done based on wholesale prices, without including retail markup. Even so, the cost to the American consumer will be quite staggering.

The administration is committed to work with Congress to craft trade legislation which will promote American exports in a fairer and mrore efficient trading system. We remain concerned about the welfare of the domestic textile and apparel industries and we also have offered to work closely with them to address specific problems facing them. However, legislation to provide protection for a single industry is not the answer. We cannot accept H.R. 1154, which breaks the rules, undermines our credibility internationally, provokes retaliation and hurts consumers in order to provide complete and permanent import protection for that already will-protected industry.

Chairman GIBBONS. Mr. Smart, we appreciate you coming back here today to be with us. We realize that a White House appointment and the long questioning of other witnesses last time prevented you from testifying, but we appreciate your courtesy and your time to come to be with us.

STATEMENT OF HON. BRUCE SMART, UNDER SECRETARY FOR INTERNATIONAL TRADE, U.S. DEPARTMENT OF COMMERCE

Mr. SMART. Thank you, Mr. Chairman.

I, too, have submitted written testimony and I will summarize my views briefly and try to avoid covering some of the areas that Ambassador Smith has already covered.

First of all, we believe this bill is both protectionist and unnecessary. The textile and apparel industries already operate behind an elaborate MFA screen and, as Ambassador Smith has pointed out, they have 18 percent average tariff protection against typically 3 to 4 percent for other industries. They are more protected generally than any other fairly traded industry competing in world markets.

The MFA arrangement was strengthened in 1986. Tight restraints were negotiated with major suppliers, essentially holding their imports flat.

We have 39 bilateral agreements, as was remarked. We have almost 1,400 quotas in effect. We cover 80 percent of low-price imports with them. We screen imports and make further calls assiduously and we will continue to do so to implement the program in place.

But the bill would go beyond even that strong level of protection. Meanwhile, the industry itself is thriving. Capacity utilization is over 90 percent, as Ambassador Smith said. Equally important, return on equity of major textile producers was 14.5 percent in 1986, against an industry average of under 10 percent.

Employment in the industry is up. Productivity is gaining rapidly. And, looking to the future, stock prices are trading at between 13 and 15 times 1986 earnings, suggesting that the market sees a good future for these companies. They see a good future for themselves planning to invest $1.8 billion in 1986, almost a record.

The industry, in short, has done a good job of restructuring in the face of its international competition. It is healthy and its outlook is good.

Second, this bill is anticonsumer, because quota-induced shortages deny the product to consumers and raise their prices, as Ambassador Smith stated.

Today we are hearing numerous requests for waivers for short supplies and for other means of getting around the textile shortage that this heavy, high level of protection entails.

In the process of not granting these waivers, we are denying consumers a choice and raising their costs to total billions a year.

Third, perhaps as important as either of the other two, this bill would violate other international agreements and our response to other nations. If we follow the dictates of this bill, we would be required to reestablish quotas which in many cases would be lower than those we have agreed to through prior negotiations.

We would do so without first establishing injury, and we would do so in contravention of our agreements under the MFA and the GATT. In short, it would require the United States to welch on deals that have been made in good faith for the benefit of the industry.

The effects of this will be far reaching. We will lose our position of moral leadership in world trade. The new GATT round, which is our best hope for developing a free and fair trading system, may well be crippled or destroyed by this.

Others will retaliate, costing us jobs and export industries. A wall of protectionism will grow up around other products in countries.

This bill is not aimed at the things that we need to help our trade situation. It is not aimed at making trade fairer or more open around the world. It is not aimed at gaining foreign market access, it is not aimed at promoting exports. Instead it is aimed, purely and simply, at protecting selected industries from the normal forces of fair international competition, at the expense of the U.S. consumer, the credibility and good name of the United States and the aspirations of developing countries for economic progress, on which their political stability and, in turn, our own security, depend.

It is a bad bill and we urge you to reject it.

Thank you.

Chairman GIBBONS. Thank you, Mr. Smart, Ambassador Smith.

[The statement of Mr. Smart follows:]

STATEMENT OF HON. BRUCE SMART, UNDER SECRETARY OF INTERNATIONAL TRADE, DEPARTMENT OF COMMERCE

Thank you for this opportunity to convey the Administration's position on H.R. 1154. This Administration cannot accept textile legislation as represented by H.R. 1154. The Administration believes the legislation is wrong. It is harmful. It is unnecessary.

Recent testimony by many of us has concentrated on omnibus legislation aimed at removing or offsetting the unfair trade practices of other countries. While we have not always agreed on specific provisions of H.R. 3, we have been of one mind with the Congress that our common objective is a free and fair world trading system.

This bill—H.R. 1154—departs from that objective. It asks for increased protection for three specific segments—textiles, apparel, and footwear—protection from the normal effects of open international trade based on comparative advantages. Thus, it would set back the principles on which the world economy has grown, and on which the United States has prospered.

In the case of textiles and apparel, we already have in place an internationally accepted system designed to moderate the impact of imports on our industries, giving them time to adjust and to compete effectively under changing conditions, without denying consumers the benefit of wider choice, or provoking retaliation by trading partners against U.S. exports, or violating existing international agreements.

When Secretary Baldrige came before you two years ago to state the Administration's view on the Jenkins Textile Quota Bill, he listed many of the improvements we had made in an already strong textile program. These included: revised rules of origin; aggressive Customs enforcement; better import documentation, and better coordination between my agency and Customs. He reported that in the two year period, 1983 and 1984, we have made 220 calls to establish new quotas.

In the two years since that report, we have made additional significant improvements to the textile program.

Last summer, we expanded the Multifiber Arrangement from products of cotton, wool, man-made fibers and their blends to also include products made of other vegetable fibers, such as ramie and linen, and products made of silk blends. This closes a loophole that had plagued enforcement of the program. We have used this new expanded authority to place quotas on market-disruptive products made from these fibers. Other features of the improved MFA have increased our negotiating leverage and our ability to implement quotas effectively.

Last year we renegotiated agreements with four of our leading foreign textile and apparel suppliers, Japan, Hong Kong, Taiwan, and Korea. These new agreements control all their textile product exports and set annual growth rates at less than one percent.

In 1985, we called 129 categories, establishing new quotas to prevent disruption. Last year, we called 146 categories. Today, we have 1,396 quotas in effect, embodied in 37 bilateral agreements. These agreements are implemented vigorously. At the end of 1986, embargoes prevented overshipments in 39 categories. Already this year, we have embargoed 20 categories of imports.

There is no doubt that the industry has adjusted well in response to this vigorous program.

A look at recent indicators of textile and apparel industry performance bears this out. Production of textiles and apparel in 1986 rose 10 and three percent respectively from 1985. Mill consumption of textile fibers increased by nine percent, to the highest level in more than a decade. Capacity utilization in textiles climbed to 91.4 percent last year, well above the average for all manufacturing industries. Textile industry profits soared by 67 percent in 1986 and the return on equity was 14.5 percent compared to 9.6 percent in all manufacturing. The number of jobs in the textile industry increased about one percent in 1986 and a further increase of three percent was recorded in the first quarter of this year. In terms of man-hours worked, employment in textiles was up seven percent and in apparel one percent in January-March 1987, compared with the first quarter of 1986.

Clearly 1986 was a good year. With stocks of leading firms now selling at 13-15 times 1986 earnings, analysts are obviously expecting a healthy 1987.

Interestingly, a longer term analysis also shows a positive trend. Production has increased at about one percent per year since 1981. As inefficient plants have been retired, plant utilization has risen from 81 to 91 percent. Total employment is down about 11 percent, reflecting a steady improvement in productivity, a necessary ingredient of continued competitiveness. Profits at 4.0 percent of sales are the highest in the last 10 years, each year of which, incidentally, has been profitable. The industry is obviously doing a good job of restructuring to meet its growing world competition.

While the Administration's import program was an important factor in the improvement in the industries' health, economic conditions were an even more important factor. The industries' forward looking attitude, innovation and commitment to the future are also major factors. Investment in new plant and equipment by the textile industry is projected to increase by eight percent in 1987 to a near-record $1.8 billion. These are not backward companies stumbling to extinction. By their willingness to invest, they are showing that they have faith in the future and their ability to compete and prosper.

In February 1986, the President announced in his Grenada speech a new program that provides our textile industry a unique opportunity to compete more effectively against low-wage countries. In the Caribbean Basin Special Access Program, we are negotiating agreements that guarantee access to U.S. markets for apparel made wholly of U.S. made fabric. We have already negotiated four such agreements.

At the same time we have been working to open other markets for U.S. textile products. As a result of our efforts, Taiwan and Korea have drastically reduced the barriers they maintained against textile exports to their countries. U.S. textile and apparel exports to the world grew 12 percent last year.

Not only is the bill unnecessary, but, if enacted, it also would be harmful. Countries such as in the European Community, whose exports would be restricted by the measure, have told us they would retaliate, saying the legislation violates the GATT and the MFA. Such retaliation would damage competitive U.S. exports in other industries.

Some of the bill's advocates may tell you that the bill does not violate our bilateral agreements, but 22 of the category quotas that this bill would establish would be set below the total of the bilateral limits we have negotiated. Thus, the legislation would prevent our bilateral partners from filling the limits we have negotiated in our agreements. We would be reneging on our international commitments.

The bill is harmful because of the added cost it puts on U.S. consumers. Unofficial estimates based on a CEA model of the textile and apparel industries show that the cost to consumers would be one billion dollars or more in the first year alone or at least $33,000 for each job "saved" in the U.S. textile and apparel industry.

Legislated textile quotas would not only hurt our consumers and exporters, but would also hurt many in the very industry it is intended to protect. In the aftermath of our new tighter, tougher agreements with the Big Four suppliers, some in this Congress, including some who support H.R. 1154, have sought quota exemptions for firms in their districts which could no longer obtain the materials they have been importing. We have turned down each one of their requests, thereby maintaining the integrity and strength of the U.S. textile program.

We oppose the footwear quotas in this bill because this costly protection will not help the domestic industry to become generally price competitive with imports. The domestic footwear industry has undertaken adjustment efforts on its own and is stabilizing in those niches where it can be competitive. The adjustment plans the industry presented to the United States International Trade Commission, however, were exaggerated. If such cost reductions are feasible, then the industry needs no import relief to justify the necessary investments to become competitive. On the other hand, the cost to consumers of the footwear quotas in this bill is estimated by the USITC to be about $6.9 billion over ten years. This tremendous cost would be a waste because it would result in no long-term benefits.

Consumers would pay about $52,000 for each footwear manufacturing job created. The average wage for those jobs is $14,000. Moreover, USITC and Department of Labor data indicates that labor turnover in footwear manufacturing is in excess of 30 percent per year. In other words, about one-third the work force in shoe factories voluntarily leaves the industry each year for other employment opportunities. The high turnover, therefore, allows footwear industry firms to adjust to lower levels of production without excessive costs in forced layoffs.

Mr. Chairman, H.R. 1154 violates free market principles, which have made our economy the envy of the world. To insulate our economy from the rest of the world is not in the country's interest, or for that matter in the long-term interest of the textile, apparel and footwear industries.

That concludes my prepared remarks, Mr. Chairman.

Chairman GIBBONS. The bill's sponsors claim that this bill is GATT legal, that it would not violate our obligations under GATT. You stated in your statement that you did not believe it was GATT legal. Would you elaborate a little on that for me, please.

Ambassador SMITH. I would be glad to, Mr. Chairman.

First, in specific reference to the multifiber arrangement, which is a derivation of GATT and so recognized in the MFA, this bill would violate that agreement of the GATT by setting unilateral quotas in circumstances not permitted under the MFA.

The MFA does not allow global quotas but, rather, permits unilateral restraint only if a particular product from a particular country is causing market disruption.

On a larger point, the bill would not conform to article 19 of the GATT from which the MFA sprang. The most significant GATT problem is that GATT requires a determination with respect to each product restricted, that there have been increased imports of that product which are causing or threatening serious injury to domestic producers of that particular product.

The bill, H.R. 1154, states that the Congress find generally that increased textile and apparel and footwear are causing or threatening serious injury, and certain broad evidence of increased imports and injury are provided, but there is nothing like the careful assessment of import injury and the causal link which is required for each product to be restricted under GATT article 19.

It is, in my view, highly doubtful that such findings could be made consistent with article 19 in the case of all these products.

In the case of textile apparel products, imports are not even increasing in some categories. In other categories import penetration may not be great enough to cause or threaten injury to domestic producers, or already existing protection under the MFA could be sufficient.

So the main point, Mr. Chairman, why we are concerned about this from a GATT point of view is that the product-by-product assessments of increased imports of serious injury and causal link cannot be dispensed with by a broad and generalized congressional finding.

There are other problems, as well, Mr. Chairman. And not being in conformity with article 19, the bill provides quotas as a permanent remedy, while article 19 provides that the relief may be provided only in such degree and for such time as is necessary to prevent or remedy the serious injury, escape clause actions, which is article 19, are intended to provide a temporary breathing spell and are normally limited in time and are digressive in effect and sort of rule of thumb of general application and practice of article 19 in terms of time limits between 3 and 5 years.

The law section 201, actions by law are limited normally to a maximum of 5 years. This can be extended for an additional 3. But the current bill, as written, provides for permanent protection. There is a provision for review after 10 years, but the protection, as we read the bill, would not terminate at that time unless the Congress passes new legislation.

My final point is the GATT inconsistently deals with the compensation. The total amount of compensation, as I noted in my testimony, is 10 percent—not 10 percentage points, but 10 percent—which will take tariff down from about 18 to 16.2 percent, and not take it down immediately, but only over a period of 5 years, presumably two-tenths of 1 percent.

So those are the concerns that we have with the GATT.

Chairman Gibbons. You know, Ambassador, while I realize there are some Members of Congress who take this legislation extremely seriously, because it seems to impact upon their district very heavily—and I can respect that—there are other Members of Congress who take it as a free ride or a joke, that if it passes, so what, it won't cost us anything.

Could you elaborate as to what it would cost the United States—either you or Secretary Smart—if this bill becomes law?

Ambassador Smith. Well, looking at it from a retaliation point of view, I think the response of our major trading partners would be immediate and severe. I think you would find, as I indicated in my testimony, the community has already told us officially that they would retaliate.

Chairman GIBBONS. You are talking about the European Community?

Ambassador SMITH. Yes, sir.

I am sure that the Chinese, if past is prologue, will retaliate. I would believe that countries seriously affected, such as Korea, would retaliate. By how much, I don't know. I would presume that where retaliation would occur would be in some of our major export industries, such as aircraft, computers, high tech, semiconductors, things like that.

So I think it would be without question that our trading partners would retaliate and would retaliate quickly. They would not ask for major consultations and drag the process out.

Mr. SMART. Well, I would add two things. Obviously it will cost our consumers something in the sense that they will be restricted in the selection they have of textile materials and their prices will increase, and the calculations have been made to show that those costs would far exceed the value of the jobs saved.

But, to me, the largest cost will be in our international position with our trading partners, the fact that we will lose our credibility as principal sponsor for a new GATT round, and we will lose the gains that we are making in the undecided part of the world, in India, China, Indonesia, and other countries which depend—as they emerge from being agrarian societies to having an industry base—on the ability to participate in the world textile market.

If we are to shut them out and prevent them from moving forward, we clearly tilt their attitudes toward our adversaries and away from the trend that now exists in which they are tilting toward us.

Chairman GIBBONS. Thank you.

Ambassador SMITH. My own view is that if this legislation were to be enacted, I doubt very much that the Third World countries will engage in any meaningful negotiations in the Uruguay round, and I will also add that those developed countries which were perhaps less anxious to break down their barriers to our exports, they will use this as a convenient excuse not to engage in meaningful negotiations in the Uruguay round.

I think we are just setting ourselves up if such legislation were to pass.

Chairman GIBBONS. Now, I am not going to ask either of you gentlemen to name any names, but I can think of a few of them myself who come in here and vote for this legislation, vote to override the President's veto, then turn around and run back downtown and ask you all to excuse their constituents from the impact of this kind of legislation.

Is that an accurate statement that I am making?

Ambassador SMITH. Well, Mr. Chairman, without mentioning names, we have received a number of communications from Members of Congress and the Senate, asking for exceptions or exemptions to the quotas that we established under our bilateral agreements.

Taking last year as an example, we received 14 communications from Members of the Senate, asking for exemptions. Of those, 10 had voted for the textile bill. We received 23 communications from Members of the House, of which 12 asked for exemptions for their certain products. These 12 voted for the textile bill and also voted to override the President's veto.

My only comment would be, if we received a total of 37 communications last year, if this bill were to be passed I would imagine the communications and requests that would be asked of us for exemptions would treble or quadruple because of the restrictive nature of what is proposed in the bill.

Chairman GIBBONS. As I read the bill, you don't have any discretion to exempt anyone?

Ambassador SMITH. No, sir.

Chairman GIBBONS. That is what I call a free-ride syndrome and is what worries me. I cannot fault my good friend, Mr. Jenkins, for supporting this bill because his district is vitally affected by the legislation.

There are other Members of Congress that just seem to say this is not serious, we are just joking, yet we came within only eight votes of sustaining the President's veto last time, on a bill that was in some ways less drastic than this bill is.

I guess I had better communicate directly with those people who take an inconsistent position on that and see if I can't understand why they take that position.

Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman, and I thank both of you for your testimony.

Let me go back to a bit of background. Both of you indicated for us that the industry is much healthier today than it has been in several years. I would assume that you are basing that upon the year 1985; is that correct, Mr. Smart?

Mr. SMART. 1986, sir.

Mr. JENKINS. 1986?

Ambassador SMITH. 1986.

Mr. JENKINS. The figures for the first quarter of this year, are compared with what?

Ambassador SMITH. The figures which are in my testimony, sir, which cite 1986, obviously are 1986 compared to 1985. The figures which compare 1987 with a previous period are comparing for capacity employment in the first quarter of 1987 with the first quarter of 1986.

Mr. JENKINS. 1985 was not a good year, by any definition, for the textile or apparel industries, was it, Mr. Ambassador?

Ambassador SMITH. Sir?

Mr. JENKINS. 1985 was not a very good year for the textile or apparel industries; is that correct?

Ambassador SMITH. It wasn't good for a lot of industries, yes, you are correct.

Mr. JENKINS. The facts are that when you compare any improvement of 1986 compared to 1985, you tend to get a rather substantial percentage increase of improvement because 1985 was such a bad year; isn't that correct?

Ambassador SMITH. Yes, sir.

Mr. JENKINS. I am sure both of you have reviewed the special report of the Office of Technology Assessment that has just come out, of the U.S. textile-apparel industry.

Ambassador SMITH. I have not seen that, sir.

Mr. JENKINS. Mr. Smart, have you?

Mr. SMART. I have not studied it in detail, no. I have seen the book.

Mr. JENKINS. It is a report to the Congress that this committee has just recently received, and I want to read some comments from it and get your comments that you may have.

Speaking of the improvements that may have been made, both in quick response adaptations and in the increased productivity in the past few years, the report says that in spite of these remarkable advances, the industry is gravely threatened.

Do you disagree that the industry is gravely threatened, either of you?

Mr. SMART. I am looking, Mr. Jenkins, at figures here for the total production, U.S. production of textile goods expressed in millions of square yards equivalence, and the industry shows a remarkably stable production, if you will, dropping from a high of 26 billion last year to a low of 23½ billion in 1982, but averaging in the order of 24½ to 25 over a 10-year period.

That doesn't strike me as an industry that is headed rapidly down. It also does not strike me as an industry showing rapid growth.

Mr. JENKINS. So you would not agree with the report that we have received that indicates that the industry is gravely threatened?

Mr. SMART. It doesn't strike me as such, compared to—along with my experience in business—I have had companies under my jurisdiction that have had this kind of mature position in their industry, that have been very healthy if they are managed properly.

Mr. JENKINS. Let me read further from the report.

Measured in square yards—that is what you were just using in your response—33 percent of the U.S. textile market and 48 percent of the U.S. apparel market was imported in 1985, shares that have more than doubled since 1975. This rate of erosion of domestic market shares shows no signs of diminishing. In fact, if penetration of U.S. apparel markets were to continue at the pace of the past decade, measured in terms of volume, domestic sales of U.S. apparel firms would approach zero by the year 2000, while two-thirds of the U.S. textile markets would be served by imports.

Do you disagree with that?

Mr. SMART. If you extrapolate the last 10 years, you would have to disagree with it, because the production has been essentially stable over those years, and I don't see anything in the arithmetic that suggests it will go from its present volume to zero in 15 years or 13 years.

Ambassador SMITH. I wonder how that would square with the fact that the 1986 fiber consumption in the United States is the highest in 13 years, since 1973; that the capacity level in the industry is the highest in 20 years; that the use of cotton is at a near record high in this country.

Mr. JENKINS. Let me quote another statement from this report which was received by the committee in April of this year, and I will shift to the dollar figures.

The report states that overall the 1986 U.S. trade deficit in textile and apparel exceeded $21 billion in 1986.

You agree with that, I assume, sir?

Mr. SMART. I don't have the figure in front of me, but I will take it as being reasonable.

Mr. JENKINS. A fourfold increase since 1980.

Do you take any exception to that?

Mr. SMART. No.

Mr. JENKINS. Now, I would assume that you would believe that the fall in the dollar value will have some impact upon that for the future?

Mr. SMART. Yes, sir.

Ambassador SMITH. We do.

Mr. JENKINS. This report indicates that the recent fall and continuing fall of the dollar, with respect to the currency of industrial nations, would tend to provide only modest relief. Much of the growth in U.S. imports has come from nations like Korea, Hong Kong, Taiwan, whose currencies are either tied to the dollar or have not changed significantly with respect to the dollar.

Do you take exception to that?

Ambassador SMITH. I don't take exception to it except that the bilaterals with Hong Kong, Korea and Taiwan only provide for a 1 percent, at best, annual increase in growth, and traditionally those three trading entities ship all of their yardage each year.

Mr. JENKINS. This report also states that at the same time as other nations began to close their borders to textile and apparel imports, the United States maintained its support for open markets, opting to push for movement toward free trade rather than toward protection and government intervention.

Several European economists have commented that—he is quoting—the U.S. Government persistently opposed the concept of direct government intervention of the types undertaken by its counterparts in Europe and in the Asia-Pacific region. Since 1983 the European Economic Community has strengthened import restrictions significantly, pursuant to bilateral agreements negotiated under the multifiber arrangements. Japan restricts imports more informally by placing pressure on distribution networks and by concluding a variety of non-MFA bilateral restraint agreements.

Available evidence suggests that the EEC's adoption of a more restrictive regime under the MFA as of 1983, coupled with Japan's continuing restrictions, has had the effect of channeling developing nations' textiles and apparel exports into the U.S. marketplace.

Mr. SMART. I am not certain, sir, that I would agree with that. I hear it in a variety of areas that show if someone else's market is closed, the flow of goods becomes greater in our market.

My own experience is that a business will find any market that is open and, if it can serve it effectively, will do so, and if a market is not open it will not serve it, and that openness of one and closeness of another doesn't affect what you do with the open market. But that is a theory that I believe—I have no way of proving that one way or the other, any more than the people who claim that imports are diverted can prove that theory.

Mr. SMITH. Mr. Jenkins, from my point of view, I don't agree with that assessment regarding the European Community. It is my understanding that the European Community has taken steps to significantly liberalize its textile regime. It has made proposals on this matter which even we cannot accept, for further liberalization.

The other point I would make in this regard is that it is probably true that textile imports into Europe in the early eighties, were lower on a percentage basis than ours. I don't know if this was a fact. I assume it is true and the reason is that Europe was in a recession for a far longer period than we were.

But, I would also remind you, sir, that the European Community has an agreement with some 50 other countries, known as the LOME countries, to which there is total freedom of imports on textiles and those countries use that very well.

Mr. JENKINS. What about Japan?

Mr. SMITH. Japan, sir, I would agree with you, to a certain degree. Japan's percent of textile imports does not reflect the capacity it should have or the willingness it should have to take in textile imports. I do not disagree with you on that. It is important to note that they do not formally maintain restraints. You pointed out the word "guidance" or words to that effect. We are aware of that. We have been working very hard in pressuring the Japanese very hard on the question of textile imports.

I happen to believe personally that they can do much, much more, particularly with countries such as the Philippines, which needs every foreign exchange revenue it can get, and I think that Japan can and should do more.

Mr. JENKINS. Japan has a trade surplus with Korea, with Taiwan, with the Philippines.

Mr. SMITH. I don't believe that Japan has a trade surplus with the Philippines, according to the information that I have from the Japanese Government, but if it is, it is very small.

Mr. JENKINS. Do they have a surplus with Taiwan?

Mr. SMITH. It could be, sir. I don't know about that.

Mr. JENKINS. And yet the rate of increase in imports by Japan since 1981, the textile and apparels, has ranged about 6 percent of total consumption, and has not substantially increased, isn't that correct?

Mr. SMITH. Across the board in lots of products, yes, sir.

Mr. JENKINS. So a nation with a tremendous trade surplus overall with the rest of the world, has not contributed as far as sharing in its responsibility—the world's countries' responsibility?

Mr. SMART. That is absolutely correct.

Mr. JENKINS. I am pleased that we found one thing we could agree on.

Mr. SMART. I am sure if we look hard we will find a great many.

Mr. JENKINS. Do you think there is anything, Mr. Secretary, that you know of anything right now that the textile or apparel industry needs from the standpoint of Federal legislation. It is healthy, and you don't see any problems for it?

Mr. SMART. I think it is true, sir, as the years go by, imports will gain a larger share of the total U.S. market because of the advantages of developing countries in this particular area of light manufacturing. But I do not see that this says that the U.S. textile industry is doomed or that it will not continue to perform in the very healthy fashion in numerous sectors that it now participates in.

Mr. Jenkins. I assume from your answer, when you are talking about the edge that developing countries have, you are referring to wage rates?

Mr. Smart. That is certainly one of them.

Mr. Jenkins. Is that the primary advantage they have?

Mr. Smart. I think they have principally that advantage in those sectors of the market where you cannot effectively replace labor with capital, but where you can apply technology or capital to get greater efficiency, greater quality, greater flexibility to the needs of the market, by being able to respond quickly to changes in style and demand, then I think that the U.S. industry is very well positioned to continue to be successful.

Mr. Jenkins. How long does it take to transfer this new technology that has developed here to the rest of the world?

Mr. Smart. If you are transferring it to a country that is prepared educationally and from a capital point of view and with infrastructure to adopt it, obviously quite quickly, as has been the example of Japan and Korea, but in those countries, as they take up new businesses, they tend to take up businesses that require that technology, that pay higher wages, that have more value added, and I don't see that the Koreas of the world, for example, depending heavily on growth in textiles for their future success. I think you are going to see that with much more undeveloped societies which would have a hard time adopting to new technologies.

Mr. Jenkins. Most of our imports come from about four or five countries today?

Mr. Smart. Not most, but a high share.

Mr. Jenkins. Pardon?

Mr. Smith. Forty percent.

Mr. Smart. Forty percent from the top four.

Mr. Jenkins. Of those nations, when technology is developed, they will have it within a short period of time, do they not?

Mr. Smart. Yes sir, but those are the nations that are already held at zero growth or essentially zero growth under the MFA, and so as our market expends, as it will, and they are held at essentially zero growth, the chances are good that this market share here will decline.

Mr. Jenkins. One of you pointed out Malaysia. I believe that an agreement has been reached that calls for a 6-percent annual increase. What is the increase in the first year, 28 percent?

Mr. Smith. I was not negotiating that agreement myself, so I will provide that information for the record. Let me point out it is true that we have a bilateral agreement with what we call medium-sized or mid-size suppliers, which we extent 6-percent growth. That is what the MFA requires us to do. If you will, the growth levels that we have negotiated with Hong Kong, Korea, and Taiwan are well below the minimum set forth in the MFA.

So what we extend to a country like Malaysia is only in keeping with the international agreement that we subscribed to, which has had the support of the U.S. textile industry since its inception in 1973.

Mr. Jenkins. What is the average rate of increase of consumption in the United States?

Mr. Smith. The average rate of consumption is as follows: In the period 1970 to 1985, on a compounded basis it is 1.08 percent. In the period 1975 to 1985, it is 1.48 percent. For the period 1980 to 1985, it is 3.25 percent, and for the period 1982 to 1985, it is 8.79 percent.

Mr. Jenkins. Is this both apparel and textiles?

Mr. Smith. This is textile/apparel consumption and the sources is Textile Organum.

Mr. Jenkins. When the figures that are quoted frequently that the average rate of increase in consumption is less than 1 percent, is that referring to apparel?

Mr. Smith. Well, it refers, sir, to both. It says, compounded annual growth in total United States textile/apparel consumption. Then if you look at the annual average compounded growth in domestic consumption items, you have men and boy's suits, top coats, 4.2 percent; women's, girls', and infants' coats, 4.2 percent; women's, girls', and infants' coats, 4.2 percent; shirts and blouses, 3.1 percent; shirts, 10.6 percent; sweaters, 6.5 percent; slacks and shorts, 3.6 percent; underwear, 2.1 percent; hosiery, 2.1 percent; gloves and mittens, 3.5 percent.

I don't have all of the apparel items, but this is just for the period 1980 to 1985. So it would seem it is better than 1 percent.

Mr. Jenkins. So the statements by the textile and apparel industry that the rate of increase is only 1 percent or less a year are wrong? You do not know where they get those figures?

Mr. Smith. I don't know where they get the figures. I am just getting figures that I have from the Textile Organum, which I believe is a recognized textile journal and this does not cover all apparel items. It shows, for example, dresses at 0.5 percent, playsuits at 0.8 percent.

Mr. Jenkins. But what is the overall rate of increase?

Mr. Smith. Overall rate, according to the information I have, sir, is if you just take the 5-year period, 1980–85, 3.25 percent, or the period 1982–85, 8.79 percent.

Mr. Smart. It wouldn't really seem logical to be as low as 1 percent, because our population is increasing more rapidly than that. You would think that the consumption of textiles would keep pace, or perhaps go ahead of that, rather than fall behind it. So I don't see any substitute for garments, so to speak, and so I think it is unreasonable to expect it to be a low as 1 percent.

Mr. Jenkins. We will try to see if we can clarify that from other witnesses, to ascertain where they are getting their figures.

There have been some recent reports that a tremendous volume of materials have been shipped from Korea to Japan and then shipped into the United States. Are you familiar with that recent story?

Mr. Smart. Yes sir. We have argued with the Japanese for a visa program to bring that situation under control and adjust quotas to take into account any aberrations that caused. I believe that situation has been brought under control.

Mr. Jenkins. There is some validity to the story?

Mr. Smart. It is a correct story and we jumped on it, and it is, I think, yesterday's story.

Mr. **Jenkins**. Some 80 million square yards. Is that not in the ball park?

Mr. **Smart**. Our figure would be 65 million square yards.

Mr. **Jenkins**. Square yards.

Are you having problems in policing that type of abuse?

Mr. **Smart**. Anytime you have quotas, sir, or any restrictions of that sort, there are undoubtedly efforts to evade them. We are doing the very best we can along with Customs, to make certain that anything of that type that develops is quickly found out and corrected.

Mr. **Jenkins**. Thank you, Mr. Chairman, for indulging me for a few moments.

Chairman **Gibbons**. Mr. Schulze.

Mr. **Schulze**. Thank you, Mr. Chairman.

Thank you gentlemen, for your testimony.

Last year, we successfully negotiated a tough new MFA agreement, as well as bilateral agreements. I have before me a list of the current textile import program which specifies the growth rates in each of the bilateral agreements, most of which are 6 percent, but some of which are 3 or 1 percent.

I also have figures that indicate imports are continuing to grow. They increased in January, February of 1987 versus January, February of 1986 by about 7 percent.

Can explain that growth?

Mr. **Smith**. Well, Mr. Schulze, first of all, I think the figure that we have for the first 3 months is that textile and apparel imports are increasing on the annual rate of about 4 percent. That is a 3-month figure annualized.

Mr. **Schulze**. Are they the latest figures available?

Mr. **Smith**. The latest that I have.

Mr. **Schulze**. If they are the latest available, we would like to have them.

Mr. **Smith**. The point that you raised you see that textile imports continue to rise. The purpose of the textile agreements that the United States has had since 1961, sir, are not to stop imports in rising but to control the imports in an orderly fashion so that——

Mr. **Schulze**. Mike, my question, is that I don't see any growth rate higher than 6 percent. If all our agreements are capped at 6 percent, it seems a little incongruous that we are growing at a rate of 7 percent.

Mr. **Smith**. I am speaking from my old experience as a textile negotiator. I don't pretend to know the ins and outs of the new agreements. If you have an agreement where the overall quota is 100, and the—in 1 year the country shipped 90 and the next year it ships 100.

Why it is still within its quota rise, if you will, and the growth rate is going to show higher than 6 percent. We try to handle a lot of that problem by breaking the agreement into component parts so that we have subcaps, if you will, so that in the more sensitive areas even even if there are unused or what is called overhang quota that there still come out to be surges, or if you will, growth rates higher than was foreseen.

At the same time most of these agreements have basket—what are called basket categories in which there could be a large number of individual products lumped in a particular category and they could show—and in essence the growth rate is not capped or is capped at a more generous level than on the specific, very sensitive items, which are the primary concern to the industry.

So it is quite possible to have imports coming in at levels higher than foreseen in a particular agreement because either the agreement or agreements were under-utilized or some of the products are coming in—the products which are coming in are not subject to either specific limits or other controls within the agreement.

Mr. SCHULZE. Ambassador Smith, ramie is now covered by the agreements whereas it was not previously. If that product is coming in, is that included in the overall statistics? You were alluding to that at the end of your statement.

Mr. SMITH. I am advised that ramie would be included, yes. Including ramie, imports have increased about 3 percent. Again, you will pardon me—when I was doing the MFA ramie wasn't in it.

Mr. SCHULZE. Are there any other products like ramie?

Mr. SMITH. I think linen and silk blends are covered now in the purview of the MFA. That doesn't necessarily mean that all agreements bilaterally negotiated cover ramie, silk blends or linen because some of the countries may not produce ramie, for example.

Mr. SCHULZE. Did we discuss reciprocity when we negotiated this new round of MFA agreements. Did we talk to these nations about opening their markets to our textile products and dropping some of the barriers they have?

[The following was subsequently received:]

RESPONSE TO MR. SCHULZE BY MR. SMITH

As a result of U.S. efforts, Taiwan has reduced its tariffs by more than half on a number of textile items including carpets, cotton and man-made fiver broadwoven fabrics, bonded and narrow-woven fabrics, household textiles, and women labels. Specific duties as well as ad valorem duties have been slashed. In addition, Taiwan has significantly reduced its harbor tax. Taiwan has also agreed to favorably consider further reductions in its tariffs and its harbor tax.

Korea has also made progress as a result of prompting by the United States. Korea has largely resolved its restrictive licensing regime, with restrictive licensing remaining only on man-made fibers and man-made fiber yarns, wool fabrics, and silk products. By mid-1988, only silk products will remain on the Korean restricted list. Korean textile/apparel tariffs, although still higher than those in the United States, have also been reduced. (By next year, Korean tariffs on apparel and carpets will drop to 30 percent and duties on all other textile products will go to 20 percent.)

Mr. SMITH. We haven't waited for the new round to being such negotiations. First of all, the negotiation of reciprocity to keeping markets open or opening other markets is enshrined in article I of the GATT, so it doesn't need the MFA.

Mr. SCHULZE. I know that. Last year we sent a lot of people around the world to renegotiate.

Mr. SMITH. I am informed, Mr. Schulze, that both Taiwan and Korea have dropped a number of barriers both in the sense of tariff and nontariff or—and we would be pleased to provide for the record the barriers that have been lowered by other trading partners.

A number of countries, of course, such as Hong Kong or Singapore, major textile traders to us have no barriers whatsoever in textiles, others do. We have increased our exports to Europe.

Obviously, this has something to do with the dollar. But it is a valid point that you raise and we do try to raise the question of reciprocity. However, when we do bilateral textile agreements that is seldom an issue because we are restraining a country shipping to us.

It is not a question of a market opening exercise on the two sides.

Mr. SCHULZE. This seems an ideal opportunity to discuss reciprocity. If we are about to increase a quota which allows them to send more to our country, we should say you have been allowed *x* number million square yard equivalents. We can continue to limit your quota to 1 percent or half of 1 percent. But if we go up to 6 percent, we say, all right, open your markets. Don't you agree that this is the proper forum to discuss reciprocity?

Mr. SMITH. No, but that is sort of embarrassing for us to ask. If we didn't have the MFA, we would not, if you will, have the right to restrain these countries in the first place.

So what you are asking us to do is to go to a country and say in order for us to enlarge the quota that we have with you, we want you to open up your market?

Mr. SCHULZE. Absolutely. What I am saying is we should tell these countries they cannot send their textiles to our country under most circumstances and that we will not increase their allowable quota with our country. You're right, I think the time has come to say open your markets a little bit. Let me give you some specifics.

We were talking earlier about an average 18 percent tariff on goods coming into this country. Then I look at some of the restrictions that Mexico has. There is a 2 percent ad valorem surcharge which accrues to the Mexican Export Trust Fund, a 3 percent surtax on commercial shipments, a 10 percent on shipments by mail, a 3 percent gross receipts tax and a 15 percent value added tax.

That is a heck of a lot of taxation on products to Mexico. Moreover, I think you have to have an import license in order to get in in the first place, and this even applies to us when our shipments are relatively small.

What do you consider the proper forum for such reciprocal negotiations—only another GATT round?

I think you have a good tool for opening markets. You are talking about this legislation as not having the net impact of opening markets. You have what I consider a tool, yet you don't seem to want to use it when I think you should.

Mr. SMITH. Would you then agree, sir, that if a country which has total open markets towards the United States, that we should get rid of all quotas against them?

Mr. SCHULZE. It would depend whether they have total open markets. Tell me one nation in the world that has total open markets.

Mr. SMITH. Hong Kong.

Mr. SCHULZE. How about tobacco, alcohol, or perfume? They're open?

Mr. SMITH. That is true.

Mr. SCHULZE. So there is no nation in the world with totally open markets. I am talking about those which have extremely closed markets. How about India? How much do we export to India?

Mr. SMITH. I don't know about in textiles but we had a surplus balance of trade with India.

Mr. SCHULZE. Did we have a surplus in textiles? If we had sufficient access then we could sell to them. But now It's very tough. You have a marvelous tool and you should use it. Furthermore, if you used such tools more often, you would have less legislation proposed like this. You must spend a lot of your time fighting this legislation; yet it could have been avoided since you have the tools to accomplish market opening in the day-to-day world.

How do the provisions of H.R. 1154 affect our obligations under the multi-fiber arrangement?

Mr. SMITH. As I had testified earlier, sir, and I would be pleased to provide something more for the record, but frankly, or briefly put, the MFA does not permit countries to put on unilateral quotas except in one very limited case, which is known as an article three case, which can only be done for one year.

Other than that, all textile quotas under the MFA must be on a particular product from a particular country on a case-by-case basis, sir. So we would be clearly in violation of the MFA were we to do what is envisioned in the bill. There is no question about that, sir.

Mr. SCHULZE. Isn't that an opportunity for people to nickel and dime us to death? We change a product, we change a quota.

Mr. SMITH. Sir, the product that is—product or products which are restrained by our definition, we use our category system, not their category system.

Mr. SCHULZE. Well, there are ways to get around some of the categories I hope under the new Customs specificity we will be more definitive and that there will be less of that.

Gentlemen, how would you propose to implement an import licensing system which would allocate quotas on a fair basis? Is there a way to do it and what other problems do you foresee in administering such a system?

Mr. SMART. I will start on it and then Ambassador Smith undoubtedly will have more details. If we were faced with the provisions of the bill, we would have several options as to how to administer it. You could start out by putting in a so-called first-come, first-serve system, in effect, and this would be the easiest to administer, just say that at the beginning of a particular period, say a calendar year, you would accept imports up to the quota limit and that would be it, regardless of where they came from.

We would guess there would be a surge of business in the first 5 days of the year and we would be out of business for the next 360. That would put a premium on who could get in there first and be disruptive because imports would have to come in so far in advance of market demand that miscalculations would result.

You could allocate the quotas country by country and product by product. This would be a more difficult system than we have now, but probably administerable with enough people. It would be relatively inflexible because it would not be able to respond to those consumers.

A third system would be to auction the quotas which would tend to put the production in the hands of the most well-financed, rather than the ones who perhaps need it most from an economic point of view.

That would be quite difficult to administer effectively. Those are three that I think of right away. Allocating quotas obviously would be allocating them differently from how we have them under the MFA and would be an abrogation of our agreements.

Mr. **Schulze**. It seems when you have an auction structure you let the marketplace establish the value of the item being auctioned. If you permitted some reservations for rather small LDCs or the NICs, it might be possible to develop an auction system which would not only bring us some needed revenue, but would more fairly reflect the market value of those quotas?

Mr. **Smart**. I have no experience with auctioning quotas. It is an intellectually attractive kind of an operation because the economic rent come to this country as opposed to the holder of the quota.

I am informed by those who have studied it more closely that it is an administrative nightmare.

Mr. **Smith**. There is existing legislation which permits the auctioning of quotas and I think successive administration have stayed away from this and I think wisely because of what Bruce referred to as the administrative headaches with this. It is intellectually attractive, but many things are intellectually attractive which administratively don't work out very well and there would have to be some sort of, if you will, intellectual justification with our trading partners because there is an inherent contradiction with our having 39 bilateral agreements so that no one country can, if you will, capture the market and at the same time having an auction system. It is possible to perceive or conceive, if you will, that one country with deep pockets could buy up all the quotas in the first hour.

So the hardship that this could cause and the disruption it would cause to marketing plans of importers and retailers could be very substantial. I just think it is a tremendous undertaking particularly in something as complicated as textiles where we already have some 14 or 1,500 individual quotas and 39 bilateral agreements.

I don't mean to be negative. I think this would require very careful looking at from a practical administrative point of view. I think the intellectual argument would probably come down on your side, Mr. Schulze.

Mr. **Schulze**. I have a bill in which would force the auctioning of landing rights at National Airport. I think we might get better service out of the airlines if we implemented such a system. If we accomplish that and it's successful, we may come back to you on this.

Mr. **Smith**. Would that give us a lower rate for U.S.-made airplanes as opposed to foreign airplanes?

Mr. **Schulze**. Yes, indeed.

Seriously, I think you could establish an auction system which allows certain quota percentages in relationship to what now comes in from smaller countries. If you do it right, you could also allow greater growth rates for smaller countries by allowing a larger share.

You could control imports a little bit better either with quotas or with such an auctioning system. I realize that you could get into trouble by playing God this way rather than letting the market place control it.

At any rate, let me state in conclusion, that I think that your negotiations must be more two-sided. We cannot afford to wait for GATT rounds to make progress in international trade. When we are opening our markets to other nations, we must get something in return. I strongly urge that when we negotiate the agreement with Mexico that runs out this year, that you come back here and say here is what we have in exchange. Otherwise, we will continue monitoring how foreign markets are opening. And until we reach nirvana, you will continue to see legislation which forces them to open up.

Thank you, Mr. Chairman.

Chairman Gibbons. Mr. Frenzel.

Mr. Frenzel. Thank you, Mr. Chairman.

Gentlemen, thank you for your excellent testimony. Both of you have described an industry that appears to be doing pretty well; yet previously we heard descriptions of unemployment in the States that are supposedly most disadvantaged by textile imports.

Those States seem to have less unemployment than the national average. Then you look at rising sales, and increasing profits in an industry which seems to have adapted quite well to different circumstances. It is very hard to come to the conclusion that this is an industry in need of more help. When you look at those sales and profits, not to mention employment levels which do not reflect massive job losses but rather a constant labor force over the last couple of years.

Mike, you were a textile negotiator for a number of years, weren't you?

Mr. Smith. Yes, sir.

Mr. Frenzel. Based on your work in the field, can you tell me whether the U.S. textile industry has ever been unprotected since the war?

Mr. Smith. Since the war.

Mr. Frenzel. Yes, since World War II.

Mr. Smith. Well, the earliest I am familiar with, sir, is, aside from the tariff side, in which I think all industries were pretty highly protected coming straight out of the Second World War, the earliest I am aware of formal textile protection is in the short-term arrangement regarding trade in textiles, which is 1961, but I believe there is literature to the effect that there were quasi-formal or informal restraint agreements dating as far back as 1956 in cotton textiles.

Protection has been—from the tariff and nontariff side has been in place since 1961.

Mr. Frenzel. And the multifiber agreement dates from when?

Mr. Smith. December 20, 1973, at 9:30 in the evening, sir.

Mr. Frenzel. You will recall that Mr. Gibbons and I thought that wasn't a very good idea, but we were told by the industry and by people in your department—you weren't there as yet, were you——

Mr. Smith. I was still in the Department of State, sir.

Mr. FRENZEL. That it was absolutely necessary or the lid would blow off the textile industry. As a result of that and the existing tariff laws, we now have a situation in which, as I understand it, we have the highest tariffs in the industrial world, with an average of about 18 percent. Moreover, we have this weird mixture of 1,400, more or less, individual quotas which cost the American consumers billions of dollars a year to support.

Isn't the theory of protection that an industry should regain its vigor after it has been protected for a couple of years?

Hasn't that always been our theory?

Mr. SMITH. It is not only our theory, but it is enshrined implicitly in U.S. law and in the GATT. Protection is supposed to be digressive over a period of time. The MFA itself says that this is a temporary instrument.

Those words, it being a temporary instrument, which were negotiated in 1973, were taken from the 1961 agreement which was amended in 1962 which also said it was supposed to be a temporary instrument.

Mr. FRENZEL. Yet here is an industry that returns for more and more protection, contrary to those basically held theories of industrial protection. It leads one to conclude that eventually the industry will simply want to sell its goods to the Government because it doesn't want to compete anywhere with foreign imports.

You described some of our agreements. In particular, you described those with our four major suppliers, not counting PRC, as delivering less than 1 percent growth a year; is that correct?

Mr. SMITH. That is what I understand, sir.

Mr. FRENZEL. What growth will be delivered in the next couple of years by all of our bilaterals under MFA?

Mr. SMITH. That is hard to predict. Just one moment, sir.

Mr. SMART. We asked that question before we came up here, Mr. Frenzel, and we are reluctant to try to put a number down because you have, of course, the uncontrolled element of it, and so on. You have some categories up for renegotiation or now being negotiated such as China, and you have some areas in which there are at the moment no controls because there has been no market disruption, so it is pretty hard to make a forecast.

I think it might be safe to say it should be significantly less than we have seen on the average the last 3 or 4 years because of having these big suppliers controlled at the level they are.

Mr. FRENZEL. It is unlikely to expect massive import surges in the future, with the 40 percent category being controlled to 1 percent, or is that an overstatement?

Mr. SMART. If you do have massive import surges, as they start to become visible we call them and cut them off.

Mr. SMITH. There is also one other thing, Mr. Frenzel. As most of the, if you will, low cost suppliers where you would see, if you will, low cost surges, are already under control, the unknown element, sir, is what happens with the European Community and Canada.

One of the reasons why we have grave concerns about this proposed legislation is that as we read it, it would mandate global quotas against Canada with whom we hope we are about to enter into a free trade agreement.

So Ambassador Murphy is today in Ottowa, is obviously very concerned about this legislation and the impact it would have on those negotiations, particularly given the fact that Canada and the United States have a long history of, if you will, ebbs and flows in textile trade between the two countries.

Mr. FRENZEL. One wonders why the industry hasn't declared victory yet and gone home. I guess once you start down the road to having Uncle Sam take care of you, it is very hard to get out of the trough.

What is the average wage in the textile industry, Bruce, do you know?

Mr. SMART. I am given a figure, Mr. Frenzel, of $6 an hour. I asked the question of whether it included fringes and there seemed to be some uncertainty. We will answer it for the record later.

[The following was subsequently received:]

In April 1987, the average wage rate for textile workers was $7.18 per hour and for apparel workers was $5.92 per hour. Total compensation (including fringes) was about $9 per hour for textile workers and $7.50 per hour for apparel workers.

Mr. FRENZEL. You testified that the consumer cost per net job saved will run around $33,000, rising to $41,600 in 1991. That is not a very good buy for the consumer, is it?

Mr. SMART. Almost any one of these that we study in any industry shows that the cost to the consumer and you need to add on the cost to other industries when retaliation takes place, makes it a very bad buy to protect the industry.

Mr. FRENZEL. It doesn't make a lot of sense in any case, but what makes worse sense is when you have an industry that apparently doesn't have much unemployment asking the rest of the country, which is sitting with 6.5-percent unemployment, to pay extra consumer costs to bail it out.

Mr. SMART. This industry has been reasonably successful in a gross sense anyhow in finding jobs for its displaced workers and most of those workers seem to have been displaced by improved productivity rather than imports.

Mr. FRENZEL. So as near as you can figure, there doesn't seem to be much import displacement of jobs at all?

Mr. SMART. You could argue that if there were no imports that at least some of the volume supplied by imports would be supplied domestically and that would create more employment. You could argue that the stability of imports and their particular characteristics, including price, has stimulated a greater use of textiles than would have otherwise taken place.

Mr. FRENZEL. Based on employment figures in the industry, it does not appear that the industry is being overpowered by imports.

Mr. SMART. That is correct.

Mr. FRENZEL. Again this makes the bill's introduction even more mysterious. Tell me about this compensation that the industry can hardly wait to impose upon itself? If compensation is claimed according to the bill, the industry will take a 10 percent tariff cut?

Mr. SMART. As I read the legislation from the existing levels over a period of 5 years, presumably evenly staged, although that is not stated in the legislation.

Mr. Frenzel. That means it will be something like two-tenths of 1 percent a year?

Mr. Smart. If you go from 18 to 16.2, that is 1.8 percentage points, divided by 5——

Mr. Frenzel. Three-plus-tenths 1 percent a year?

Mr. Smart. That is correct.

Mr. Frenzel. Will that compensation pay off trading partners who claim compensation?

Mr. Smart. No way, sir.

Mr. Frenzel. Would that clause of the bill be something you would call show-boating by saying you are going to pay for something you can't afford?

Mr. Smart. We would say that the current proposal for compensation would be rejected out of hand by our major trading partners, who would retaliate in kind, dollar for dollar, or frank for frank.

Mr. Frenzel. Speaking of that, have our trading partners suggested their wish list for retaliation yet?

Mr. Smart. Some of my friends in the European Community have given us some idea, that would be telecommunications equipment, airplanes, air engines, some high tech items, super computers and some other things.

Mr. Frenzel. That's good for openers.

Mr. Smart. That is good for openers.

Mr. Frenzel. I suppose it could get a lot worse than that.

Could you draft an amendment to the bill ensuring that the textile and apparel industry actually pay for the estimated retaliation?

Mr. Smart. No, sir. We wouldn't have enough in the kitty.

Mr. Frenzel. Could you draft something that would be self-leveling, or in other words, would enforce the next year what the retaliation had been in the previous year?

Mr. Smart. I would have to think about that.

Mr. Frenzel. I think if the industry is so heroic as to tell us that it will pay the whole cost of the program, then we ought to figure out a way to ensure that it can achieve full recognition for its heroism. Perhaps we can work on that in the next few weeks as the bill moves ahead.

Is it true that CEA estimated that in addition to the $33,000 per job saved in textiles, another $52,000 a year cost would result per job saved in footwear?

Mr. Smart. Yes, sir.

Mr. Frenzel. Why is footwear so high?

Mr. Smart. I suspect because of the higher comparative advantage for offshore footwear producers.

Mr. Frenzel. American producers have much higher costs. Did the CEA estimate in its study whether there would be net jobs saved, after we saved some and then lost some due to higher prices and retaliation?

Mr. Smart. I am not certain how to answer the question because you save jobs here and lose them there, you probably end up losing through the retaliation, when you add that onto the cost of the consumer you become less efficient economically.

Mr. Smith. My recollection is that the CEA concluded it would be a net loss of jobs.

Mr. **Frenzel.** Is it possible for the committee to have either a CEA report or some kind of a digest?

Mr. **Smith.** We will provide that for the record.

[The following was subsequently received:]

The CEA has not done a report recently on the footwear industry. We contacted CEA on your behalf, and they would be happy to respond to your request. They require a written request directing them to prepare the report. You should direct your letter to Honorable Beryl Sprinkel, Chairman of the Council of Economic Advisors, Old Executive Office Building, Room 314, Washington, D.C. 20500.

Mr. **Frenzel.** I think that would make far more interesting reading than this report from the OTA. Is any other department of Government studying what might happen under this bill, or was that delegated to CEA exclusively?

Mr. **Smith.** I think that type of exercise, drawing the models or figuring out what the net gains or losses is has traditionally been and to my knowledge is only being done by CEA.

Parts of my testimony reflects, if you will, interagency work on that spearheaded by CEA. I know——

Mr. **Smart.** It is CEA, sir.

Mr. **Frenzel.** Do you have resources in your agency that either verify or work with the CEA on this? In other words, does your department analyze their report and data to verify these astronomical figures?

Mr. **Smart.** We are certainly in a position to analyze and understand the inputs that—and the mechanism by which they make the calibrations and would be delighted to do so if that was helpful.

Mr. **Smith.** If what you are driving at is do we agree with this data, the answer is yes.

Mr. **Frenzel.** I want to know if there is any variation at all in the administration's position or are we all standing behind the CEA report so that we can state across the board each department of Government supports this CEA statement.

Mr. **Smith.** That is correct.

Mr. **Frenzel.** To the best of your understanding the latter is true?

Mr. **Smart.** That is correct.

Mr. **Frenzel.** Well, Mr. Chairman, I think this has been an awfully interesting discussion. I have just one more question. Mike, you mentioned quota calls interfering with American production, because domestic producers are unable to buy sufficient materials to produce what they estimated were the needs of the market.

Is that getting to be quite a problem under the current system?

Mr. **Smith.** I have been given to understand, sir, that there are now appearing shortages and/or significant increases in prices, which have caused some of our importers to turn to previously unheard of suppliers.

One is Zimbabwe and the other is the Soviet Union.

Mr. **Frenzel.** What are we buying from the Soviet Union, do you know?

Mr. **Smith.** Primarily cloth or various forms of cloth.

Mr. **Frenzel.** Is that because other countries are at their quota limit and additional suppliers cannot produce?

Mr. **Smith.** That is what I am given to understand.

Mr. FRENZEL. Apparently American suppliers can't produce it either, which would corroborate your testimony about the health and the production standards of the industry. They are making everything they can.

Mr. SMITH. That is correct.

Mr. FRENZEL. It seems to me this bill is probably backwards. We should probably be reducing a number of quotas instead of increasing them. Perhaps we need an amendment of that sort as well.

Mr. Chairman, I want to thank the witnesses for their testimony and yield my time.

Chairman GIBBONS. Mr. Guarini.

Mr. GUARINI. Thank you, Mr. Chairman.

Now that we have had a very glowing prediction of the industry and apparently from what I understand from the last interrogator, Mr. Frenzel, things have never been so good and that we should claim a victory, let me ask you whether or not you agree with the Office of Technology Assessment who just came out with their report, and this is the latest report, and they say that between 1950 and 1985 employment in the apparel industry fell 11 percent and textile employment fell 15 percent, a total of 142,000 jobs were lost.

Do you agree with that?

Mr. SMART. 1950 to 1985?

Mr. GUARINI. Yes.

Mr. SMART. I don't know the 1950 figures——

Mr. GUARINI. I am sorry—1980 to 1985. In other words, this decade, between 1980 and 1985, the latest figures given by the Office of Technology Assessment on page 7 where it says, "The impact on the U.S. labor force show a total loss of 142,000 jobs in that industry."

Now, I am asking you whether or not that agrees with your understanding of our employment loss.

Mr. SMART. I am getting my figures together again here. It is within the range of our figures, yes, sir.

Mr. GUARINI. They give a 5-year spread showing that there is continuing loss of employment and also there is a chart on page 7 that shows that the wages have gone down also in that industry even though the wages have gone up otherwise.

Mr. SMART. I cannot comment on the wages. I don't have any information on it.

Mr. GUARINI. Can you comment on the loss of employment?

Mr. SMART. That sounds about right.

Mr. GUARINI. Now, if that is right, how many of those jobs were in this last year? I understand, 1986, was a good year in our economy, our gross national product is up, people are buying more than ever, capital formation and savings has been down as a result—how many jobs have been recouped from those 142,000 jobs in 1986?

Do you have any figures?

Mr. SMART. Yes, we do. If you will give me a second to scramble and find them in this large array handed me. The 1986 figures on total employment were essentially flat with 1985 and 1987 figures are up from 1986 and slightly above 1985.

Mr. GUARINI. Let's break that down? In 1986 you say it is flat with 1985?

Mr. SMART. Yes.

Mr. GUARINI. So, therefore, we lost 142,000, and as we go now through 1986, to January 1, 1987, we are still 142,000 jobs down. That is not victory yet, is it?

Mr. SMART. No, but I think that you should check the productivity figures and you would see that during that same period of time productivity improved very markedly.

Mr. GUARINI. Let's talk about people, not statistics for the stock market. Let's talk about jobs and people supporting their families. How many jobs have been recouped then in 1987? Did it make up for the 142,000 jobs or don't you have statistics?

Mr. SMITH. Twenty-two to 23,000 jobs, sir.

Mr. SMART. I think I should point out the total employment in the United States and in the States most affected by this has been going up steadily.

Mr. GUARINI. But that doesn't help the people who have lost jobs in the industry where they have spent their lives and they depend on their skills to support their families. So when you give me statistics nationally, although I may applaud the number of jobs, I am talking about this particular industry as to how many jobs we have been able to recoup.

Then I want to ask you if we have only recouped 22,000 and I will assume your statistics could be correct, we are still 120,000 jobs down since 1980.

Mr. SMART. Right.

Mr. GUARINI. That doesn't sound like we are claiming a great victory particularly when you consider the fact that our gross national product in the last 7 years has gone up considerably and that there has been tremendously more consumption in this particular field, so America hasn't got its share.

So there is still a market penetration that is far greater than what we have been able to produce in that particular industry. I would draw that as a fair conclusion.

Mr. SMART. If you start from the hypothesis that every U.S. industry should stay at or above its employment levels of some past base then you are locking us into the conditions of whatever base year you pick and avoiding the possibility of shifting the changing technology and changing comparative advantage to maintain a vital and vibrant economy and instead locking us into the past.

Of course, there will be changes and some industries will show declines in employment.

Mr. GUARINI. Is that your strategy for this particular industry that employs 2 million people?

In other words, are you giving a message to those 2 million people that soon the rest of you may be losing your jobs because things have shifted and we are going to abandon trying to help an industry get on its feet if it has to compete with other countries, for instance, China, where they may pay less than 20 cents an hour?

Mr. SMART. The only way the industry can compete is to sell more goods and get labor costs down. That is true of every basic manufacturer.

Mr. GUARINI. Everything is relative and the question is whether or not America is relatively getting its fair share considering the amount of consumption that is up. What is your national plan or strategy for this industry then?

Mr. SMITH. This Government has since 1961 had a program of import restraint against foreign textiles. First it was with cotton products and then from 1973 it was with manmade fiber products and in 1986 that was expanded to include ramie, linen and silk blends. If you want to call that a strategy, we have an import restraint strategy.

Mr. GUARINI. Considering the fact that you are disenchanted by the past, what is our program for the future? I know you can't be locked into some of the sins of the past and I know we could probably have been more productive, but we have had open markets, given access to the world to our markets while they close themselves to ours—I think that is a truth. What is our future and what are we doing to plan for our future and what is the message we are to give this particular industry that employs 2 million people?

Mr. SMITH. What is the industry doing to plan for its future? It is not for the U.S. Government to plan for the industry's future.

We have, I think, now the largest system of bilateral restraint quotas and programs in the history of this country, 39 bilateral agreements with them. We are working on the access question on the other side which Congressman Jenkins raised, a question of access into Taiwan, into Korea, but you say that the industry, what are we doing about this industry which is employing 2 million people?

I would submit that this administration and every administration since 1961 has had in place a very large and in many ways costly program to restrain import growth into this country. Whether it is restraint as closely as the industry would like or not, the fact is that we have had a program in place now for 27 years.

Mr. GUARINI. Then are you in agreement with the program that we have had in place for the last 27 years? Should we do more of the same?

Mr. SMITH. I was a textile negotiator, sir, for six years.

Mr. GUARINI. When you say it is up to the industry, I agree with that generally, but is there a national plan that you see for the industry that they should be able to get their act together and be more competitive or should we consider this a declining industry and accept that as a fact?

Mr. SMITH. The U.S. Government, to my knowledge, no administration has ever said that the U.S. textile industry is a declining industry. There is no question that the U.S. textile industry, like many manufacturing industries, not only in the United States but in the developed world have a number of problems, particularly with regard to lower cost labor.

That is a fact of life. That is what this program was about, was to protect jobs. It wasn't to protect an industry. It was to protect jobs.

Mr. GUARINI. Let's do that in connection with, for instance, China. What do you feel the role of our Government should be with regard to China in providing the textiles and apparel market with products.

You and I know that the labor is certainly on a whole different level of pay, wage and scale and we have to be competitive with them or at least be able to get a message to our people that we have to have them consume American products as much as possible.

What is our policy toward China and what do you think can be done?

Mr. SMITH. Our policy with regard to China is to continue to have a bilateral agreement with the People's Republic, which is no more favorable than any of the other agreements that we have with any of the other major suppliers such a Hong Kong, Korea, Taiwan, and Japan.

Mr. GUARINI. And it should set quotas in your opinion?

Mr. SMITH. It already does.

Mr. GUARINI. In your opinion, it should set quotas?

Mr. SMITH. We have a quota program, sir.

Mr. GUARINI. So it is a question of what is fair as far as a quota is concerned?

Mr. SMITH. We are required by the MFA to give equitable treatment to all countries.

Mr. GUARINI. In essence, you accept the quota principle, it is a question as to where you draw the line, is that correct?

Mr. SMART. We have a quota program that is sanctioned under the GATT through the multifiber arrangement, which is our responsibility to enforce.

Mr. GUARINI. What this bill says is, of course, the quota line should be drawn at a more favorable line than what the administration agrees upon and you are saying we can't get that kind of agreement with our trading partners and, therefore, it would be violative of MFA and GATT?

Mr. SMITH. This bill says there shall be a global quota and that it shall be permanent and that it shall be at levels which are below those prescribed with regard to international agreements to which we are already a party.

Mr. GUARINI. So there should be quotas, it is a matter of where the quotas should be as a matter of principle?

Mr. SMITH. Not as a matter of principle. There is a quota program that is the policy of this administration and previous administrations.

Mr. GUARINI. As a matter of rules of trade that we have established between our trading partners—you have 143 members in the USTR negotiating with how many countries at this time and how much time and effort is put into the textile problem?

Mr. SMITH. We have one, two, three professionals and two support staff, I think, 6 people out of 141 people, Ambassador designate Houston, Mr. Sorini, Ms. Cummings and others—of course, we are not the implementor of the textile agreements. That is the responsibility of the Department of Commerce.

Mr. GUARINI. How many people are working on these 36 agreements that you mentioned because I understand bilateral agreements are the way we are going now; is that correct?

Do you have adequate personnel implementing those?

Mr. SMITH. Yes. We have adequate personnel for the negotiation of these agreements. By Executive order of the President, the implementation of these agreements is the responsibility fundamentally of the Department of Commerce and its Office of Textiles.

Mr. **Smart**. We have in that office just under 40 people, backed up, of course, by Census and Custom's people in the field.

Mr. **Guarini**. So to implement the textile import program, to negotiate the bilateral agreements, to pursue all the calls that have to be taken care of on a daily basis and to undertake the work of seeing that a proper agreement is implemented, we have in your estimation sufficient personnel and that USTR is not basically addressing itself to the problem, it is the Department of Commerce, is that what I understand you to say?

Mr. **Smart**. Basically, USTR negotiates agreements, Commerce sees that they are carried out.

Mr. **Guarini**. So where we have to negotiate 36 bilateral agreements and you only have 143 people on your entire USTR staff and you are undertaking GATT agreements now for negotiation, do you feel you are adequately staffed?

Mr. **Smith**. We have adequate staff. The 39 agreements are not negotiated simultaneously nor do they have the same beginning or ending dates.

Our agreements with Hong Kong, Korea, and Taiwan are 6 year agreements or 5 year agreements and they are staggered in time purposely.

Mr. **Guarini**. But the fact is you feel that you are adequately staffed.

Mr. **Smith**. Yes, sir.

Mr. **Guarini**. Has tax reform, in your opinion, hurt this industry at all?

Do you have any opinion on that?

Mr. **Smart**. I think it is hard to comment. Obviously, a capital intensive industry will regret the loss of the investment tax credit. On the other hand, the marginal tax rates will be beneficial and the more efficient use of national savings by getting rid of tax shelters will clearly be beneficial.

I think the jury is still out on that. I don't think we have seen the law in long enough.

Mr. **Guarini**. So that is an action of government that has been counterproductive to the best interest of this particular industry?

Mr. **Smart**. No, sir, I didn't say that. I said I don't know.

Mr. **Guarini**. Do you have any opinion, Mr. Smith?

Mr. **Smith**. No, sir, I do not.

Mr. **Guarini**. Will robotics and high tech be the way of our hope for the future in order to be able to be competitive and get our share of the market back worldwide if we care to get our share of the market back?

Mr. **Smith**. In textile terms, I think——

Mr. **Guarini**. What do you envision out there as to how we can survive and keep this industry alive?

Mr. **Smith**. As one involved with textiles for nearly 7 years, I do not believe that the U.S. textile industry is going to go out of business ever. We will always have a textile industry in the United States.

Mr. **Guarini**. Apparel?

Mr. **Smith**. Yes, sir, always. And I will wager my salary on that.

Mr. **Guarini**. Will we have a footwear industry?

Mr. **Smith**. That, sir, I don't know.

Mr. GUARINI. You won't wager your salary?

Mr. SMITH. It is easy for me to wager my salary, it is not very much money. But the future, obviously, is—part of the future at least is the increased use of robotics and other mechanical machines such as the one that the industry itself, I think in conjunction with MIT, is working on. Clearly, anything which will increase productivity is going to be a plus for the industry. I remember Lazar Teper of the Ladies Garment Workers Union telling me that there is nothing like 10 cent an hour labor as compared to $1 an hour labor. We pay higher wages in the textile industry and we have to take that into account.

That doesn't mean that you close off the border because other countries have lower wage rates. I would point out that the textile sector, the yarn and fabric sector in the United States right now is doing gang busters and I think that is well known throughout the industry.

Mr. GUARINI. It is doing better. We agree with that. It is the apparel industry that is hurting.

Mr. SMITH. In my experience as a textile negotiator, it was always the apparel industry. Indeed, there were many and I was one of them who argued that we should never have had comprehensive textile agreements, because when we protected the yarn and fabric industry we paid a price and got less protection, if you will, on the apparel side.

I still think it was a mistake, we should have protected only those things which needed protection and we didn't have to protect the yarn and fabric industry, this is a personal view, but in my experience, it was a fundamental mistake to do that.

Mr. GUARINI. We gave temporary import relief to the footwear industry. Could you give us your opinion as to the current state of our footwear industry and whether or not it justifies taking place and where we are going from here.

Mr. SMART. I think our footwear industry has established niches in the market where it can be competitive with U.S. production and a large portion of it is logically supplied from offshore and will continue to be.

It is quite different from the textile industry. It has very, very high import penetration and the lower value product, and that will probably continue.

Mr. GUARINI. Then I understand 81 percent of footwear is imported?

Mr. SMART. That is correct.

Mr. GUARINI. So we only have 19 percent left of our market?

Mr. SMART. Yes, sir.

Mr. GUARINI. Are we in danger of losing that last 19 percent, in your opinion?

Mr. SMART. I think we will continue to have a niche-oriented small footwear industry in the USA.

Mr. GUARINI. It will be minimized?

Mr. SMART. It will be relatively small, as it is now.

Mr. JENKINS. Mr. Chairman, I don't have a question.

I want to thank you for your testimony, even though we obviously disagree.

But I might comment that I see that we have been in session on this committee 2½ hours. We have, during this 2½ hour time, increased the trade deficit in the United States by $50 million. It is increasing at the rate of slightly over $20 million an hour. At the end of today it will be between $400 and $500 million more than it was yesterday.

Thank you for your indulgence.

Chairman GIBBONS. Thank you all. We appreciate it very much.

We now have a panel consisting of Levi Strauss & Co., Thomas Bauch, senior vice president and general counsel; Northwest Apparel & Textile Association, Larry Mounger, vice president, and president of Pacific Trail, Inc., Seattle, WA; United States Apparel Industry Council, Thomas G. Travis, counsel; and Atlantic Apparel Contractors Association, Inc., Arnold Delin, executive director.

Let me remind all of the witnesses that your entire statements will be placed in the record and you may proceed as you wish.

Mr. Bauch.

STATEMENT OF THOMAS J. BAUCH, SENIOR VICE PRESIDENT AND GENERAL COUNSEL, LEVI STRAUSS & CO., ACCOMPANIED BY RICHARD BURNS, DIRECTOR, TRADING AND SOURCING OPERATIONS, AND JAMES KILGORE, CUSTOMS MANAGER

Mr. BAUCH. Good morning. My name is Tom Bauch. I am the senior vice president and general counsel for Levi Strauss. With me today are Dick Burns, who is the director of our trading and sourcing operation, and James Kilgore, our customs manager. We are appearing today in opposition to the bill before you.

Levi Strauss is the world's largest manufacturer of branded apparel. We have produced garments in the United States since 1850. We have produced garments, chiefly blue jeans, in the United States since the 1850's.

I want to emphasize that we are not a textile manufacturer. We are an apparel manufacturer. All of the fabric that we use in our jeans is fabric which we buy elsewhere.

Structurally the two industries appear to be different. Ours is not a capital-intensive industry. We believe that we are one of the largest employers of apparel workers in the country, having presently about 24,000 workers in the United States. More than 90 percent of our products that we sell in the United States are made in the USA, and we believe that this is likely to be true for the foreseeable future. The remaining 10 percent are sourced offshore. About one-third of our sales and profits are offshore, principally in Europe. We make jeans both in Europe and ship U.S. made jeans to Europe and elsewhere. Our international roots are deep.

The company was founded by Levi Strauss, a Bavarian immigrant who noticed a market during the gold rush, bought denim which was made in France, and made jeans. Substantially those same jeans are made today and sold in millions and millions of units, except that we are sourcing the fabric almost entirely in the United States.

We have found that when it comes to denim corduroy, while there are good fabrics made outside of the United States, domestic textile mills are both competitive and quality conscious.

Chairman GIBBONS. Would you repeat that little known fact. Would you repeat what you just said.

Mr. BAUCH. In the United States—almost all of our denim is made in the United States. We find that the U.S. denim manufacturers are quality conscious and that they are price competitive—in part that may be because there is a 9-percent tariff on denim imported by the United States—the U.S. denim manufacturers can compete with the very best in the world.

We believe that to remain competitive in our industry, we are going to have to be able to source fabric outside of the United States, when it appears to be necessary, particularly with respect to new fabrics.

We oppose this bill for three reasons. In apparel we believe that a multilateral approach to trade is more effective than rigid unilateral legislation.

We believe that the consumer will ultimately suffer if this bill becomes law, in numerous ways, both on cost and otherwise.

Finally, we believe that there are options such as greater industry cooperation through data exchange, computer data exchange, research and development, and other ways to make our industry better. Indeed, we believe that last year for apparel manufacturers the change in the tax bill was a major step forward, reducing us from effectively the highest marginal tax rate in industry to one which applies to all and lowered some barriers to capital formation.

We support the multifiber arrangement. The MFA is a better way of resolving trade issues, and we believe that there were significant controls instituted in 1986. The MFA was renewed during that year, through 1991, and includes numerous fibers not covered by the quota.

There were tighter bilateral agreements with the three major manufacturers, exporters—Korea, Taiwan, and Hong Kong—and the negotiations are now underway with the PRC.

The previous panel discussed this at some length. I will not reiterate any more, except to say that we believe that with less than a year's experience, it is too soon to change the ground rules.

We believe that if the bill passes, there will be retaliation against the United States, both in apparel and elsewhere.

Currently we do export significant quantities of our goods to the European Community, to Canada and to Japan. If the United States imposes global quotas, those countries probably will adopt similar restrictions.

Worse yet, we are concerned about what happens in the Third World to economies which are more fragile outside of the Big Three. These apparel and apparel manufacturers are entry-level industry.

We believe that the bill hurts consumers. There would be a significant rise in the cost of apparel, particularly shirts, if the bill passes. And, in addition, we believe that the choice at the fashion end of the business—incidentally where we do not compete—would be narrowed significantly.

There is a contrast here. Levi Strauss manufactured knit shirts in the United States for many years and could never make a profit on it. In the case of basic jeans, we believe that we are among the most efficient manufacturers in the world and that we enjoy a price advantage over any competitors offshore.

In the knit shirts, we believe that we achieved a savings of about 30 percent in the wholesale price, which has been substantially passed on to the consumers.

To the extent that apparel companies remain flexible, we believe everyone benefits.

We believe that there are alternatives here, particularly integrating the systems of apparel manufacturers with their suppliers, textile suppliers, and with retailers. By shortening lead times between the mill and the ultimate consumer, we believe we can largely offset some of the labor advantages enjoyed in the Third World.

We have established a leadership role here and have a couple of experiments underway both with our retailing partners and with our suppliers. On a broader scale, we are doing considerable research into robotics and other ways of handling our garments more quickly in our manufacturing process.

We share the Congress concern that the American apparel industry has to have its fair share, but we believe that a fair trade arrangement can be arranged under the multifiber agreement and we oppose this bill.

I will be happy to answer any questions which you may have.

Thank you.

Chairman GIBBONS. Thank you.

[The statement of Mr. Bauch follows:]

Testimony of Thomas J. Bauch

Senior Vice President and General Counsel

Levi Strauss & Co.

My name is Thomas J. Bauch. I am Senior Vice President and General Counsel of Levi Strauss & Co. I am accompanied by Mr. Richard Burns, Director, Trading and Sourcing, and Mr. James Kilgore, Customs Manager. Thank you for the opportunity to appear before the Subcommittee in opposition to H.R. 1154, the Textile and Apparel Trade Act of 1987.

Levi Strauss & Co. is the world's largest manufacturer of branded apparel. The Company has produced high quality garments in the United States for more than 130 years.

We are one of the largest employers of apparel workers in the United States, with 23,650 workers in over 40 domestic facilities. Each year these employees produce more than 150 million garments for sale, primarily in the U.S. We employ an additional 8,000 workers in other operations around the world. They produce approximately 47 million garments for sale, primarily outside the U.S.

We produce apparel in more than 40 countries, in our own factories or through contractors, and market our products in 30 countries around the world. However, more than 90 percent of the products we sell in the United States are "Made in the U.S.A." and are likely to be made here for the foreseeable future. The remainder are sourced offshore.

Our product mix includes not only our famous jeans, but also men's, women's and children's jackets, slacks, shirts and sweaters. Our annual sales volume is in excess of $2.7 billion. $2 billion of this is sold in the U.S.

A combined domestic and international approach to business is nothing new to Levi Strauss & Co. The original fabric used in miners' overalls in the 1850s was serge de Nimes (denim), a strong cotton cloth loomed in France. The then new fabric was sewn in the U.S. to produce the first Levi's® blue jeans. Today, for the domestic market, we rely on American denim and other U.S. made fabrics, such as corduroy, to produce our jeans. To make the best jeans, we look worldwide, but we have found that, when it comes to denim and corduroy, domestic textile mills continue to be both competitive and quality conscious. We buy denim and corduroy from these mills because they stay on the leading edge of technology and marketing. They show that domestic producers can remain competitive in today's market, under the current tariff and quota protections.

To remain creative and a leader in our industry, we search the world to find new products and new fabrics for all age groups and life styles. Many of the fabrics we use for non-jeans products are from U.S. mills, but some are not; often because domestic mills decline or are unable to produce the short runs of more specialized fabrics that are required for fashion garments. Most of the non-jeans products we sell in the U.S. are sewn here as well, but some are not. We believe that to be successful in one of the most competitive industries in the world, we must be free to explore new raw material and product sources both here and abroad. In this way, we ensure that our customers are offered products which are innovative, of high quality, and represent the best possible value.

Levi Strauss & Co. opposes this Bill for three basic reasons:

- A multilateral approach to trade is more effective than unilateral legislation;
- The consumer will ultimately suffer if this Bill becomes law; and

- Options such as greater industry cooperation through electronic data interchange, as well as research and development, are better ways to make our industry more competitive internationally.

A Multilateral Approach is Better

The American apparel industry has had a system of protection permitted under special international rules since 1974 -- the Multifiber Arrangement. The MFA was adopted by the GATT (General Agreement on Tariffs & Trade) to provide protection for workers in importing countries and to allow exporting countries to develop competitive industries. We continue to support the MFA and the multilateral approach to resolving trade issues. We participated in the MFA renewal negotiations and encouraged the Administration's efforts to strengthen bilateral agreements. And, in fact, significant new import controls were instituted in 1986:

- The MFA was renewed through 1991 and now includes fibers not previously covered by quotas: silk, ramie, linen and other vegetable fibers.
- New bilateral agreements were signed in 1986, including those with the Big 3 -- Korea, Taiwan and Hong Kong. These agreements have a new feature: a one percent aggregate growth limit on all exports, regardless of quota category.

These new protections were negotiated to correct two specific problems -- the growing dominance of the Big 3 in apparel imports, and surges in U.S. imports in apparel from one year to the next. These measures have been in place for less than a year, and it is simply too early to evaluate their effectiveness. We believe it is therefore too early to adopt legislation that would destroy the multilateral process of resolving trade disputes.

Moreover, this Bill fosters retaliation rather than negotiated solutions. If it passes, exporting countries will obviously retaliate under the GATT against our exports in other areas. This then starts a cycle of further protectionism, greater retaliation, reduced exports and, ultimately, a slump in domestic production and employment.

Even our own industry relies on exports. For example, Levi Strauss & Co. currently exports significant quantities of U.S. apparel and textile products to Japan, the European Community and Canada. If the U.S. imposes global caps, those countries will adopt similar restrictions which would severely impact our export business.

A better solution is to pursue a trading system that is fair to all countries and that will give U.S. apparel companies the opportunity to sell their products worldwide. We should strive to open markets rather than close ours. The new MFA and the bilateral agreements negotiated in 1986 should be given the chance to show their effectiveness before we risk our exports.

The Bill Hurts Consumers

Consumers worldwide, and the American consumer in particular, have become increasingly demanding with regard to their apparel purchases. They expect and deserve value -- the best product at the best price. As a marketing oriented company, Levi Strauss & Co. has attempted to respond to the needs of its customers by producing a broad range of products efficiently and economically. Generally, this has led us to produce our clothes near or in the market where they are sold; but in selected cases, the consumer's needs have been better served through foreign sourcing.

A good contrast is provided by Levi's® jeans and knit shirts. In the case of basic jeans, we have determined that manufacturing in the United States provides a clear advantage in quality, reliability and price over imports.

Knit shirts provide a different result. By producing these garments principally through contractors in the Far East, we have been able to reduce our wholesale cost by over 30% per unit. In each case, the results translate into considerable savings for the retail consumer.

Perhaps Levi Strauss & Co.'s approach can best be described as one of flexibility. To the extent that apparel companies can remain flexible and effectively shop the world for the best value, the consumer's interest in the best product for the best price can be protected.

We believe that H.R. 1154 will severely restrict our ability to shop the world. We are particularly concerned about the specter of an import licensing system. Although the Bill does not specifically require a licensing system, it is clear that by imposing global caps this will be required. Otherwise, there would be no certainty that anyone importing textile and apparel products from any country will, in fact, be able to bring the goods into the U.S. Such an unprecedented scheme will cause substantial disruptions in the flow of imported products for both large and small companies. The result will be sharply limited imports, which will mean higher prices and fewer choices for the consumer.

Better Alternatives Exist

We are convinced that there are better solutions to our industry's problems. For example, over the past several years, Levi Strauss & Co. has invested millions of dollars in new cost-saving production technology to become more efficient and thus more competitive. Today we are a stronger domestic producer than we were when the investment process began.

Another alternative to solve our problems is close cooperation among domestic manufacturers, mills, and retailers to reduce costs and lead times. This is our major competitive advantage and all of us need to capitalize on it.

Steps have already been taken. To respond to the retailers' need for fast stock replenishment, apparel manufacturers have developed the "Quick Response" program. Similar cooperative efforts have reduced piece goods handling and inventory carrying costs. The "just in time" program is designed to deliver piece goods to our plants just as the manufacturing process begins.

Each of these innovative, cooperative efforts have brought us closer together, provided a better understanding of each others' needs, and have added to the bottom line.

Similarly, our company has established a leadership role in electronic data interchange with our suppliers and retail customers. Levi Strauss & Co. garments are now coded with electronically readable information so scanners can be used to register sales and speed up orders from retailers to our factories and mills. Our expanded family of retail electronic services, known as "LeviLink", is a system designed for every stage of the merchandising life cycle. On a broader scale, Levi Strauss & Co. is active in forming a new partnership with the textile, apparel, and retail industry to facilitate better customer service. Through the collective efforts of the Voluntary Inter-Industry Communications Standards Committee (VICS), new voluntary standards for item identification, electronic data interchange, and bar coding are being developed. Such information, when properly utilized, is expected to lead to better anticipation of, and reaction to, changes in consumer demand for products and significantly improve the competitive position of domestic participants in these industries.

Alternatives such as LeviLink, VICS, Quick Response, and "just in time" are bringing our industry together to seek creative solutions and move us into the 21st century. Really, these ideas are not new, but are tools for survival to provide our customers value, and the right product in a timely manner. We support such a positive approach to our business and urge our competitors to do the same.

We welcome the current efforts of the Congress and the Administration to deal with the fundamental issues underlying American economic competitiveness. This comprehensive effort encompasses matters such as research and development policy, taxation and education reform. Although Levi Strauss & Co. has not taken a position on any of the specific competitiveness proposals, we believe that government has an important role to play in supporting the efforts of American companies to become more competitive. By contrast, unilateral protectionism is a shortsighted "fix-it" solution that will decrease the efficiency of American industry.

Conclusion

We share the Congress' concern and that of the American Apparel Manufacturers Association that the domestic apparel industry remain viable and competitive in world markets and that domestic jobs be preserved. We differ, however, both with the Bill's proponents and some members of our own industry as to the most desirable and effective solutions to the problem.

We believe there are better ways to preserve and protect the economic health of the American apparel industry. None of these requires sacrificing the interests of the American apparel consumer or the obligations of the U.S. under international trade agreements.

Mr. Chairman, we trust you and the members of this Subcommittee will thoroughly examine the alternatives and we hope your conclusion, like ours, will be that this legislation is neither necessary nor desirable.

Chairman GIBBONS. Before we go to questions, we will go to the rest of the witnesses and then come back for questions.

Northwest Apparel & Textile Association.

STATEMENT OF LARRY C. MOUNGER, VICE PRESIDENT, NORTHWEST APPAREL & TEXTILE ASSOCIATION, AND CHIEF EXECUTIVE OFFICER, PACIFIC TRAIL, INC.

Mr. MOUNGER. Good morning, gentlemen. My name is Larry C. Mounger and I am the chief executive officer of Pacific Trail, Inc., a 40-year-old, Washington State based business. I am testifying today on behalf of the Northwest Apparel & Textile Association, a trade association representing all of the major apparel importing firms in the Pacific Northwest.

The Northwest apparel industry will be significantly impacted by this legislation. Our importing industry is relatively new in terms of other large industries in the Northwest. Many of our companies have been in existence for less than ten years and have experienced strong growth. It has been estimated that the Washington State based apparel industry now has sales well over $600 million per year and that Seattle is the fourth largest apparel center in the country. These companies source almost exclusively in the Far East, the area most impacted by this legislation. In effect, the legislation will close the door to sources of supply for many Northwest apparel companies, jeopardizing the existence of the companies themselves.

For the Northwest apparel industry, we are concerned that this precipitous action will increase our costs, reduce our choices in the marketplace and cause long-term business instability. For my own company, this bill, if enacted, would result in a substantial increase in costs and a decrease in gross sales and force yet another realignment of our company.

The world marketplace is constantly shifting as a result of economic and political factors. Pacific Trail has been successful because of its ability to adjust to those changes. When my father founded Pacific Trail in 1945 with six sewing machines and hopes and dreams, there was no multifiber arrangement. Control over cotton imports did not begin until after the Korean War. Major competition in outerwear, Pacific Trail's primary product lines, was from Europe and other domestic manufacturers. We built our own factories, developed our own product lines and instituted distribution and sales networks. In the early 1960's we began to notice a decrease in worker productivity, and in the 1970's we saw an increase in operating costs occasioned by Government regulations, costs of working capital and increasing labor costs. At the same time, we began to see new apparel with higher levels of workmanship being manufactured in the Far East. Much of this manufacturing was with the help of U.S. aid and technology.

The administration reacted properly to these new economic shifts by calling for and instituting the multifiber arrangement. These new controls, along with changing factors of competition, prompted Pacific Trail to look at different sources of supply in order to continue to provide products of a value and quality demanded by our customers. In 1974 Pacific Trail made the corporate decision to secure some lines of production in the Far East. We made that decision to insure that we would continue to be competitive and to preserve our business. We looked at other domestic sources in addition to our own production but determined that alternative sources would not produce the product our customers demanded. Pacific Trail products are sold in over 4,000 retail outlets and we have sales offices in 20 cities in the United States. We are a healthy, viable company today because we made the correct corporate assessment of U.S. policy and the world economy. This bill changes that assessment and provides for additional Government interference in an already highly protected and regulated marketplace.

I testified in 1985 before the Senate Finance Committee on an earlier version of textile and apparel import protection legislation. Since that testimony the administration has renegotiated the multifiber arrangement to broaden its coverage substantially to include ramie and other fabrics that had been unregulated. In addition, the United States renegotiated the bilateral agreements with Taiwan, Hong Kong, South Korea, and Japan, holding them as a group to 1 percent growth per year. Other agreements, including the one with China, have been or are being renegotiated with very low rates of growth. Most of the agreements now include group and aggregate limits which further restrict flexibility and increase the complexity of the apparel trade. Finally, the administration has hit exporting countries with a huge number of new quotas through calls for consultations and has set the restrictions at very low levels. I find it hard to believe that my colleagues in the domestic manufacturing industry complain about the administration's enforcement actions. From my perspective, the apparel trade is extremely tight and the opportunities are few.

In my 14 years of sourcing apparel from the Far East, I have never seen such a difficult market. Extremely strict bilateral agreements, a weak dollar, and competition for production space from Europe and Japan has escalated prices and made deliveries unrealistic. Many U.S. marketing companies are coming back to the United States for production because of these sourcing problems in Asia.

Finally, the supporters of additional legislative protections argue that H.R. 1154 is an improved bill and will not damage apparel trade. That argument has no basis in fact. The bill restricts import growth from all sources to 1 percent per year per category. The quotas are permanent and would not even be reviewed until 1996.

The apparel trade is characterized by rapidly changing fashion trends and shifts in consumer demand. Although cotton trousers may be a hot item in the current season, consumer preferences may quickly shift to manmade fiber trousers. The application of the one percent growth rate to each category is entirely unrealistic in the apparel trade and has no relationship to the facts of the trade. The actually effective growth rates would be far below 1 percent.

In sum, Mr. Chairman, the passage of this legislation will seriously threaten the viability of the apparel industry in the Pacific Northwest. Our companies have been built on successful business strategies which rely on high quality imported products. I should point out that I am not unaware or unsympathetic to the concerns of domestic manufacturers. In addition to Pacific Trail, my family company owns a domestic apparel manufacturing company in California called Catchit, Inc., which manufactures 100 percent of its production in the United States. We do this because it makes economic sense to do so. From that perspective, I have looked at this issue from every angle. I am convinced that the Northwest industry's current strategy is productive and effective and in the best interests of the American consumer and the American economy. I appreciate the opportunity to testify and am prepared to answer your questions.

Thank you.

Chairman GIBBONS. Thank you, sir.

STATEMENT OF THOMAS G. TRAVIS, COUNSEL, UNITED STATES APPAREL INDUSTRY COUNCIL

Mr. TRAVIS. Good morning, Mr. Chairman. My name is Tom Travis, legal counsel to the United States Apparel Industry Council. We appreciate the opportunity you provide us to appear here today.

The United States Apparel Industry Council was formed in June of 1986 to address the concerns of American multinational apparel and textile companies. The council consists of U.S.-twin plant apparel companies utilizing the benefits bestowed by item 807.00 of the Tariff Schedules of the United States. Our membership includes some of the largest American companies utilizing this important and vital tariff provision. They include Levi Strauss & Co., Haggar, Farah, Bend-N-Stretch and Tropical Garment Manufacturing Co.

We are here today to voice our concern that H.R. 1154 does not provide any recognition for products which are made wholly from U.S. fabric and are reimported under TSUS 807. For a range of policy reasons, we feel that products made with U.S. fabric, which is cut and formed in the United States, should receive more favorable quota treatment than goods which are made entirely from foreign components.

Our members expressed the same reservations with the textile and apparel legislation in the last Congress. Today our position is the same. Simply stated, why should products manufactured almost completely from U.S. components be placed under the same restraints as wholly foreign-made products? The multifiber arrangement itself recognizes that "consideration shall be given to special and different treatment to re-imports into a participating country for processing and subsequent reimportation, in light of the special nature of such trade without prejudice to the provisions of Article 3." The Protocol of Extension signed in 1986 goes even further, saying that 807 imports should be given special, differential access and separately treated when determinations are made concerning market disruption.

The rallying cry of those opposed to 807 imports has been that it encourages jobs to move offshore. We reject this unsupported allegation. We believe that 807 actually preserves jobs, by encouraging companies to use U.S. components in assembly operations, rather than shifting completely to offshore production.

This is not an unsubstantiated allegation on our part, but one that is fully supported by the facts and by the independent studies which have been conducted on these issues. In September of 1970 the U.S. Tariff Commission published the results of its exhaustive, year-long analysis of the economic effect of item 807. In relation to textile products, the report concluded that repeal of provision 807.00 for textile products would result in a transfer of sourcing from firms that assemble with U.S. components to "like products wholly produced by foreign manufacturers in the Far East," and for luggage the report said that "present users of the provision would readily procure their requirements by importing similar articles produced wholly abroad." Further, the study went on to say that "there is little basis to presume that there would be a significant increase in U.S. production should these tariff items be repealed * * * Repeal would probably result in only a modest number of jobs returned to the United States, which likely would be more than offset by the loss of jobs among workers now producing components for export."

We recognize that the International Trade Commission is in the process of setting up its first major review of these provisions since the 1970 report. First, Mr. Chairman, our membership would like to applaud you for having requested this study, which is long overdue. And, second, we wish to assure you that our members are prepared to cooperate fully with the Commission and its staff as the investigation proceeds. We are confident that the ITC's eventual report will reaffirm the desirable economic and political consequences which these provisions generate.

We have this confidence because we know that our member companies buy yards, fabric and ornamentation from U.S. manufacturers, thereby creating jobs in numerous U.S. domestic sectors. For example, one of our member companies has calculated that for every dollar spent in conjunction with their 807 manufacturing, 81.3 percent goes for the direct support of U.S. jobs. This company sources components for their products from at least 12 different States, contributing to the employment of over 30,000 people.

On a broader level, we have calculated that 807 imports from the Caribbean and Mexico, the area which accounts for the majority of our textile and apparel imports under 807, represent 72 percent U.S. value. Only 28 percent of the value-added is foreign. Imports of 807 still represent a relatively small market share of the total imports. In 1984 it represented only 3.9 percent of the market. In 1986 it had grown to 4.4 percent. Considering that at least 72 percent of the value of the 807 imports is American, we think this increase is good. We hope that the market share of 807 imports will continue to increase.

The administration has already recognized the special circumstances surrounding imports of 807 from the Caribbean when using U.S. cut and formed fabric. In February 1986, President Reagan announced a special access program for textile and apparel imports from the Caribbean Basin. The program developed not only out of a desire to help Caribbean countries boost export revenues, but also to encourage the use of domestically produced fabric, formed and cut in the United States.

To date, bilateral agreements have been negotiated and signed by the governments of four Caribbean countries: Jamaica, the Dominican Republic, Haiti, and Trinidad and Tobago. While it is still too early to see the results of this new program, we expect the net result will be a higher percentage of U.S. value in 807 imports.

As we noted in response to H.R. 1562 in the 99th Congress, and repeat now, this legislation ignores the vital economic and security interests of our neighbors in the Caribbean Basin and Central America. More importantly, the legislation ignores the geopolitical benefits derived from tying the economies of the region together. While this factor is difficult to quantify in terms of dollars and cents, it is an extremely important issue to consider in determining the long-term national and international interests of the United States.

For all of these reasons, the United States has aggressively encourages these countries to direct their development efforts into the formation and expansion of export-oriented industries.

Section 807 assembly operations have contributed toward their export-led growth in nontraditional products, as well as strengthening the economic and political ties of the region. The Textile and Apparel Act of 1987 would cripple the special relationship which has developed between U.S. manufacturers and firms in the Caribbean and Latin America. In light of the large percentage of U.S. value in 807 apparel imports, and the importance of helping the region to the South in maintaining both a stable economic and social base, we are convinced that products entered under TSUS item 807 should receive more favorable quota treatment than products which are wholly foreign. H.R. 1154 does not provide this special treatment for goods entered under 807.

The Textile and Apparel Act of 1987 would punish U.S. companies which, for competitive reasons, have moved their assembly operations offshore but have continued to use U.S. fabric and components in their production, as opposed to U.S. companies which have moved their operations offshore altogether, using wholly foreign fabric, components and labor.

The Textile and Apparel Act of 1987 would effectively destroy the incentives of 807 for textile and apparel products. While the duty incentive would still be in force, the limits it would place on growth offset the other benefits of using 807. It is impossible to determine exactly what the effect of H.R. 1154 would be on imports of textile and apparel products under 807, since the bill does not provide for country specific quotas. However, it is fair to say that without an exception for 807 imports, the current legislation, which practically stops world growth in imports, would have a serious negative impact on joint production facilities and the desirable policy goals they further.

I thank you for permitting us this testimony and we stand ready to answer questions.

Chairman GIBBONS. Thank you.

Mr. Delin.

STATEMENT OF ARNOLD DELIN, EXECUTIVE DIRECTOR, ATLANTIC APPAREL CONTRACTORS' ASSOCIATION, INC., AND PRESIDENT, KEYSTONE APPAREL ASSOCIATION

Mr. **Delin**. Thank you, Mr. Chairman.

I am Arnold Delin, executive director of the Atlantic Apparel Contractors' Association and president of the Keystone Apparel Association, based in Wind Gap, PA. I requested this time to testify in support of the passage of H.R. 1154.

I am here on behalf of small entrepreneurs in small rural communities throughout the Commonwealth of Pennsylvania, who employ people whose futures depend on the survival of the apparel industry.

When I testified before the subcommittee 2 years ago, I provided extensive statistics to demonstrate the degree to which the apparel industry had been battered by foreign imports. Today, however, I will touch only briefly on statistics, because I am certain that the members of this subcommittee have already been bombarded by them. I am also certain that the subcommittee knows the degree to which the apparel industry has been chilled by the cold winds of economic failures directly traceable to the flood of apparel imports from low-wage countries.

I am glad I had the opportunity to listen to the Honorable Mr. Smith and Mr. Smart, because I want to make a distinction in order to keep the facts of my testimony in proper focus.

The apparel business is usually lumped together with the textile industry, and apparel manufacturers and apparel contractors are often viewed as one and the same. Actually the textile and apparel industries are separate entities, each with its own problems, each with a life of its own. The textile industry makes the fabrics for the apparel industry. The apparel manufacturers, in turn, style various garments from the fabrics for the retail trade or the consumer. Because many manufacturers do not have the facilities for producing finished garments, they ship the fabric and trimmings to the contractor, who performs the cut, sew and trim operations and then ships the garments back to the manufacturers for sales distribution.

My constituency is composed of apparel contractors. This means that the members of our trade association are, in effect, selling labor to manufacturers. We are selling labor against the most intense kind of unfair labor competition in the entire world.

For the past decade, American contractors have been trying their utmost to compete with low-wage Far East countries such as South Korea, Taiwan, Hong Kong, Bangladesh, Sri Lanka, and since 1983, China has emerged as the U.S. No. 1 source of apparel imports. I wish to note here that wages in China are as low as 25 to 30 cents per hour.

As if this unfair competition from the Far East were not enough, domestic apparel contractors have in the last few years become faced with another set of low-wage competitors. Under the provisions of title 807 of the United States Tariff Code, we now must also compete with some 25 emerging nations of the Caribbean Basin.

Section 807 provides that fabric must be produced in the United States, cut here before it is shipped to the Caribbean Basin contractors to be sewn into a finished product, and shipped back to the United States, and the importing manufacturers pay only a small import tax based on value added, which in the case of the Caribbean region is small indeed.

The requirement under 807 that textiles be made in the United States is fine for the textile business, but it militates sharply against domestic apparel contractors who cut and sew.

So now, here in 1987, apparel contractors are locked in a two-front, labor-competitive war with the usual Far East countries and now with the Caribbean Basin nations. Little wonder that our ranks have been so terribly decimated.

Mr. Guarini from New Jersey previously stated it aptly that it is people we are concerned about—people, who are losing their jobs.

To demonstrate more specifically how the U.S. free trade policy has battered us, a decade ago when imports first became a problem, the Atlantic Apparel Contractors' Association had a membership of about 570 members, all of whom were employers. This means, of course, that there were about 570 employers who collectively were providing over 40,000 jobs, paying their taxes on every government level, contributing to local charities and, though the multiplier effect, providing revenues for ancillary community businesses of every kind.

Today, here in 1987, our membership has dwindled to only 190 members, a loss of two-thirds of our members and a loss of over 27,000 jobs in Pennsylvania alone. Virtually all of these losses can be directly attributable to the impact of imports from low-wage foreign countries.

In effect, then, these figures dramatically demonstrate that due to imports, the apparel contracting business has been deported to offshore apparel contractors.

As you can imagine, the contractors who make up the Atlantic Apparel Contractors' Association—and hundreds of other contractors around America—feel bitter and betrayed.

They feel bitter at the turn of events and they feel betrayed by their Government.

Many of our members have not only lost their businesses but their life savings, and the hundreds of their employees who have worked for them for years have also been left out in the cold with no place to go for employment because factory after factory has suffered a similar fate, and small communities like Roseto, Wind Gap, Minersville, Tatamy, have empty buildings and unemployed apparel workers with no future. They are bitter—bitter because they question a free trade policy that favors businessmen in the Far East and Caribbean Basin over them; a free trade policy that has resulted in the virtual loss of America's manufacturing base, throwing many companies into bankruptcy ruin; a free trade policy that has made the United States a debtor nation; a policy of monumental trade deficits; a policy that concerns itself with the economic welfare of our trading partners at the expense of U.S. industries.

Just two additional points. First, the Atlantic Apparel Contractors' Association did not seek help from the U.S. Government without first trying to help themselves. Over the years they have desperately tried to compete against impossible odds. They have reengineered their factories, borrowed money from their rapidly dwindling resources to buy high-tech equipment to speed productivity, attended scores of association-sponsored seminars in modern business techniques, speedier production procedures and labor intensive programs. So they have tried very hard to help themselves first before seeking help elsewhere.

Second, based on this effort, we know that we can compete with foreign competitors with respect to producing a quality garment. The charge that somehow imported garments are better than those produced domestically is just not factually true. We have the equipment to produce any garments that domestic manufacturers want. We have the desire and the initiative, perhaps born of desperation, to effectively compete in these areas.

But since the business of apparel contractors is selling labor, there is just no way that we, based on our labor costs, can compete with wages paid in the Far East and Caribbean nations.

The easy answer to this problem, as articulated by some free traders, is that Americans will have to take sharp pay cuts and reduce their standard of living in order to be competitive. Reduce the apparel workers standard of living? In an industry where the average wage paid to our employees is only about between $5.50 to $6 an hour, with many of them single household providers, they now live at either the poverty level or slightly above it. How much further could their cost of living be reduced?

The evidence of the harmful impact on the industry and its employees has been dramatically demonstrated. The loss of literally thousands of apparel jobs and the bankruptcy of so many hundreds of contractors is proof that we just cannot meet this unfair competition no matter how hard we try, no matter how hard we work.

Unless it is the desire of the administration and/or the U.S. Congress to sacrifice the apparel contracting business on the alter of an unworkable free trade policy, then there is not the slightest doubt that there will be more bankruptcies, more unemployment of apparel workers, more disillusionment, more bitterness.

There is only one way that can hold out any promise of circumventing the rapid slide to oblivion among apparel contractors of Pennsylvania and the Nation, and that way is for the members of this subcommittee to strongly recommend to your congressional colleagues that the Textile and Apparel Trade Act of 1987 be enacted into law at the earliest possible time.

Thank you for your invitation to testify and for the many courtesies extended to me by the members of the subcommittee.

Chairman Gibbons. Thank you sir.

A number of you brought up in your testimony that we have some real difficult problems in this industry here—two industries actually, a textile industry, and an apparel or garment industry. Yet we find them united in their lobbying efforts to try to maintain their industry—some people would even go so far as to say increase their profit shares in the market.

I have for a long time tried to figure out why they lobby together, because, obviously, the textile industry is one that is susceptible to a lot of mechanization, a lot of automation, and the garment industry has proved to be very difficult to automate and to go into what we call high-tech.

Now, is that a mistaken observation of mine, or is that a correct observation?

Mr. **Delin**. That is correct, sir. The apparel industry is a fashion industry, whereby we don't have the long runs such as the textile people make when they make fabric, so we are constantly changing styles depending on the whims of the consumer, and that is why it is very difficult for the apparel industry to get into high-tech, even though we are now getting into high-tech, and many of us are getting into robotics as it becomes available.

Chairman **Gibbons**. Would you clarify what you mean when you say, "high-tech and robotics,"? I have seen demonstrations of trying to sew a sleeve and things of that sort. Has there been much progress made in that area?

Mr. **Delin**. There is progress being made by Draper Laboratories in Massachusetts, and by Singer M.A.R.S. in New Jersey where they are now experimenting, where labor, industry, and government have joined together to encourage further study. But Singer Sewing Machine, and I am sure the gentleman from Levi Strauss can bear out the fact, are now into robotics, and they will be sewing garments together on a continuous basis, and that is being demonstrated and is ready for operation now.

So there are inroads made for many of the industries, such as what Levi Strauss manufacturers, because they have such a large continuity of one garment.

The gentleman said they are not a fashion industry per se because they have continuity of a particular garment, so they can produce it on a high-tech level, they don't change styles or fabric as much as the fashion apparel does.

Mr. **Bauch**. That is largely correct. If I were at my office, I would be wearing a product, a 501 jean made of denim with buttons on the front. We have been making it for some 130 years now.

We make millions and millions of them both here and in Europe. The time that that garment is under the needle is somewhere between 9 and 12 minutes. The labor involved in it is important, but it is not a critical feature in our cost.

Where you are making—where a production run is several thousand units, as may well be the case with my colleague to the right, robotics will not be as effective. I question whether one can overcome the waste disparity in that situation with any degree of mechanization.

I do not think that the Congress or the administration has suggested a free trade approach here. There are restrictions on the amount that is coming in. There are some real questions about how that is divided up.

Chairman **Gibbons**. Mr. Frenzel?

Mr. **Frenzel**. Thank you, Mr. Chairman.

I want to thank the panel for providing us with very interesting information. Mr. Bauch, if it is public record, how much of your revenues or what percentage, roughly, are export revenues?

Mr. **Bauch**. The export portion of our revenues is relatively small. We find that as is the case in the United States in our major markets it is simply easier and better for us to manufacture the goods there of fabric of local manufacture.

In Europe, however, we use a significant quantity of U.S. made denim.

Mr. **FRENZEL**. Then you are not able to say how much of your revenues are derived abroad?

Mr. **BAUCH**. Currently——

Mr. **FRENZEL**. Off-shore?

Mr. **BAUCH**. Currently, as you may know we are a private company——

Mr. **FRENZEL**. I do not want to squeeze figures out of you that you do not want to reveal.

Mr. **BAUCH**. The export market is not an enormously profitable market because we don't choose to compete in it.

Mr. **FRENZEL**. Mr. Bauch, you have been a victim of counterfeiting. Do you see prospects for your company if we are able to incorporate intellectual property rights planning into the Uruguay round at the GATT?

Mr. **BAUCH**. We think that would be terrifically important to us and to other manufacturers of world recognized branded goods. We spend a considerable portion of our legal and security budget on counterfeits.

We welcome the efforts of the administration and the Commerce Department in the 807 program to protect intellectual property rights.

Mr. **FRENZEL**. Is one of the reasons that you are opposing this bill because you have some apprehensions about the GATT negotiations being unstrung by a passage of the textile bill?

Mr. **BAUCH**. No, frankly, our opposition to this bill is we think that it would produce an unwieldy, indeed, unworkable quota allocation system, that it would restrict imports for an already heavily protected industry and that the unraveling effects in the world economy concerns us as a major international company.

Mr. **FRENZEL**. Thank you very much.

Chairman **GIBBONS**. We hate to interrupt. We will be right back. We have to answer a roll call.

Please maintain your places, we will go to Mr. Frenzel again when we come back.

[Brief recess.]

Mr. **FRENZEL**. Mr. Travis, you talked about your 807 group, and incidentally the committee is pleased to have you back. We have appreciated your counsel over the years.

Now can you run through that 807 discussion again: exactly how it works and then with a quick reprise on what the rules are now under current law and what the textile bill would do to your opportunities?

Mr. **TRAVIS**. The 807 tariff exemption, if this were a piece of a suit, it would be precut in the United States to its exact size, shape and length, exported out of the country with all the other parts and assembled and brought back into the United States. The resulting duty would be the difference between the full value, the American components, the remainder would be the amount at which duty would be applied.

Mr. **Frenzel**. What restrictions do you have on that kind of operation under current law?

Mr. **Travis**. Unfortunately in most of the agreements, of course, 807 merchandise is lumped together with non-807 merchandise meeting totally foreign merchandise.

Under the new special access program with the four countries we have a preference in affecting for 807 merchandise provided that merchandise is made from American knitted or woven cloth.

Mr. **Frenzel**. What happens if we pass the textile bill?

Mr. **Travis**. It doesn't say what happens and we fear that what will happen will be no distinction will be made so we are back to the discrimination against 807 merchandise.

Mr. **Frenzel**. As you read the bill there is no distinction, they would simply be classified as imported wares so any time a quota call is in effect you are dead?

Mr. **Travis**. That is correct.

Mr. **Frenzel**. Do the people you represent use out sources in many foreign countries?

Mr. **Travis**. Yes; however, with the 807 operations, most of those are in the Caribbean Basin and Mexico.

Mr. **Frenzel**. I would have suspected that was the case.

Mr. Delin, you indicated in your testimony that the United States was pursuing a free trade policy which in your words battered us. Earlier I discussed the textile protections that we have had over the years.

I was unaware that textiles ever moved freely in international commerce, at least in my lifetime, and I was wondering what you consider free trade? Is 20 percent tariff free trade?

Mr. **Delin**. The fact is, Mr. Frenzel, that our big problem is that we can not compete with the low wage earnings countries, and I think that this administration does not recognize that, and that is why we feel by giving them an open market with all these countries, gives what we classify as free trade. They have a right to do basically what they want to do, there are no restrictions.

Mr. **Frenzel**. It isn't exactly an even trade off for labor. You are here and they are there. You are in the market in which the goods are being made. You should be able to react faster. You should have a lot of different kinds of shipping costs. You should not be, I would guess, wholly at the mercy of some seamstress in Korea who is thousands and thousands of miles away from the scene, should you?

Mr. **Delin**. Well, the entire apparel industry in this country is changing and I think that even the textile industry, not counting the past year or so, 2 or 3 years previously, they did not make the fabric for American manufacturers in the apparel industry to be able to produce goods because of imports, they were not getting the orders in this country.

It is only recently that things have changed because the industry is changing with quick response, and still changing rapidly. What is happening is that the manufacturers in this country are sending the goods overseas or buying goods from Japan or Italy, or wherever, and they are making the long runs, which is advantageous to the foreign market and the manufacturer.

The U.S. manufacturer has what is known as a short run, short continuity of styles, 500, 600, 700 pieces, a thousand units, and that is not advantageous to have these made overseas.

Mr. **Frenzel**. How do you respond to some retailer complaints that they can't get what they want from domestic producers, that they are obliged to go off-shore?

Mr. **Delin**. That is not entirely so. The reason they say they cannot get what they want domestically is because when a manufacturer in this country gives an order overseas they will put in an order of 5,000 units or more.

Once those 5,000 units are sold and a retailer wants another 3 or 4 dozen garments of a particular style, they cannot go and make it overseas and they have to try to make it domestically, which costs more money to make because it is a short run.

Mr. **Frenzel**. Thank you.

Congratulations to you and your association for your self-help initiatives. I think that those who are indulging in them are finding them to be very successful.

Mr. Mounger, how many companies are in your association?

Mr. **Mounger**. We have 30 members at this time and a lot of associated members.

Mr. **Frenzel**. I assume some of them are importers and some of them are mixed?

Mr. **Mounger**. Some are importers and some are hybrid, yes, sir.

Mr. **Frenzel**. How many employees are we talking about in that crowd?

Mr. **Mounger**. I couldn't give you an exact answer of the number of employees, and contrary to popular opinion, the importing companies are not small one- to three-person offices.

I would imagine we represent, with our 30 companies, 5,000 to 6,000 employees.

Mr. **Frenzel**. And what is the size of your company in employees?

Mr. **Mounger**. Our company has 300 employees at this time.

Mr. **Frenzel**. I take it that you regard the textile bill as an unnecessary restriction to the kind of business that you like to conduct to satisfy your market, and those consumers that rely on you for products?

Mr. **Mounger**. Yes, sir. I started in this industry when I was 12 years old, and I have cut in cutting rooms, I have sewn in sewing rooms.

Our company produced domestically exclusively for 30 years and used to sew in the United States every garment that we made, but there came to be a point where we did not feel the American textile industry was providing the fabrications and the flexibility that we needed to continue in business and we had a choice to go overseas to diversify or to close the doors; and my family voted unanimously to diversify.

Mr. **Frenzel**. There are applications, as exemplified, where American firms can——

Mr. **Mounger**. I can give you two examples. Our firm does a $75 million annual volume. Every garment we make in the United States is produced because it makes economic sense to do so.

Another thing is when we had our Spokane factory, we didn't turn the people out in the cold. We took our factory manager aside and said, how would you like to become an entrepreneur, set up your own business, and we will finance you as an apparel contracting company so that you can keep these employees employed. We haven't made a dime on this, but today this contracting firm has the greatest backlog of business in its history.

The reason is because it is so chaotic overseas that a lot of American marketing companies are coming back on shore. Those are the facts. I just returned from a 3-week trip overseas and I have seen a more difficult market to try to import garments. What the administration has done in the last couple of years in terms of negotiating these multifiber arrangements has really worked.

Mr. Frenzel. Thank you.

I thank all the panel, and I yield.

Chairman Gibbons. Mr. Guarini.

Mr. Guarini. Does that also mean that what we are doing here also works because it puts further pressure on our trading partners to be fair?

Mr. Mounger. I am the strongest advocate in the world to put stronger pressure on Japan to open their markets and I don't think it is fair for our trading partners to unfairly close their markets to imports.

My State of Washington lives and dies by imports and exports, and I would like to see our wheat farmers and apple growers and a lot of industries have free access to the foreign markets.

Mr. Guarini. Are you saying you believe in free trade as opposed to fair trade?

Mr. Mounger. I don't think there is such a thing as free trade. I believe in fair trade.

Mr. Guarini. So therefore our country should take certain steps in order to control its own destiny in the public policy?

Mr. Mounger. I think the interest of the United States should be foremost in the policymaking of the United States.

Mr. Guarini. Should the United States play a role in developing a strategy?

Mr. Mounger. Definitely. I think the Government has done an outstanding job in developing a plan for textile and apparel over the last 30 years.

Mr. Guarini. Knowing the decline of employment in the industry, particularly the apparel industry because the textile industry isn't labor intensive as the apparel industry is and in the footwear industry, knowing that there is a decline, what in your view is going to be the future of these industries?

Are they going to be able to hold their own worldwide, do they need more help, is it going to be technology and robotics or the way that they can bail themselves out, how do you view the future of these 2 million people who are working in the textile and apparel industry?

Mr. Mounger. In 1985 I was told that 1990 would be doomsday for the American textile and apparel industry, that there would be no industry by 1990.

The textile industry is doing extremely well, the apparel industry is struggling and having its problems, no question about it.

But I believe those apparel companies that are sensitive to market forces, that will change and get on to what is hot in the market place, will continue to survive. I also think technology and robotics is part of the answer, yes, sir.

Mr. GUARINI. Mr. Delin, in regard to the retailer versus the consumer, does the consumer benefit from the present manner in which textiles are quotaed today?

Could you comment—the National Consumer Association, I understand, is for this bill. There are certain consumer organizations that may be against the bill.

Could you explain to us how the consumer does, and am I correct in saying that if a polo shirt is made in South Carolina, and if they have a factory in Taiwan, and a factory in Korea, when it hits the market, even though the cost in Korea to the retailer and in Taiwan is considerably under the cost of the South Carolina plant, that the public pays the same price, is that correct?

Mr. DELIN. That is correct in many instances and that is why the retailing industry is opposed to this bill. They have been opposed to any kind of restrictions on fair trade so to speak.

They want free trade, because what many of the major stores will do, they will buy imports and they will buy domestic and mix the two together and constantly have sales all the way down the line until they have a profitable markup.

Very few, and a study has been made of the consumer getting any advantage of imported goods. usually the major department stores mix them with domestic goods and do not pass on any savings to the consumer.

Mr. GUARINI. So the big beneficiary is the retailer under the system we have today?

Mr. DELIN. All you have to do is look at the figures in the financial reports, you will see the department stores are doing a good business.

Mr. GUARINI. So that big profit isn't necessarily passed down to the consumer so they can benefit from the low wage scales we have in China, Korea, Taiwan, and other places?

Mr. DELIN. No. It is interesting to know when we first started having problems of imports, when manufactures started importing from all the various nations from overseas, what happened was major department stores started going overseas and opening up their buying offices and leaving the manufacturer out on a limb.

When I testified 2 years ago I think one of the members on your committee pointed out K mart, they showed how they were buying at a lower price and yet selling at the same price to the consumer in the United States. That was brought out 2 or 3 years ago.

Mr. GUARINI. Do any of you gentlemen disagree with what Mr. Delin said?

Mr. BAUCH. I am not an expert on the retailing industry, we only manufacture. We sell to about 20,000 retailers.

Mr. GUARINI. So you are not disqualifying yourself?

Mr. BAUCH. Not entirely. My impression as a general reader of the financial press is that the price of apparel has consistently trailed the price of inflation. I don't know that as a hard fact.

It is also the case that there is a good deal of consolidation going on at retail now. The trade press is full of speculation about the future of department stores in light of the pressures put on their margins by the lower cost sellers at retail, the so-called mass merchants.

Mr. GUARINI. The more the retailers become dependent upon foreign products and the more jobs that are involved in dealing with and packaging and selling foreign products, the more of an argument the retailers can make, because they say look at how many jobs have been created by selling foreign textiles.

I am wondering whether or not that is a supercilious argument or that is a valid one that we consider. I would rather have them making our own products, that we can sell our own products to our own people which is the biggest market in the world, instead of being dependent upon foreign markets, do any of you other gentlemen have an opinion as to the consumer?

Mr. TRAVIS. In terms of American manufacturers continuing in the manufacturing business, the 807 program specifically helps those manufacturers and keeps them from shifting into a situation where the retailers control that business by total imports and establishing the buying offices; 807 companies are typically American companies manufacturing both on and off shore. They continue to use the American facilities in partial full-time. Of those 807 objectives thereby keeping employment up in the plants.

Mr. DELIN. I hate to disagree, but there is a significant thing happening in 807 right now. All those countries with quotas, China, Hong Kong, Sri Lanka, those companies are now opening large factories in the Caribbean where they are using transshipment to justify their quotas or to hide their quota systems. This is what is happening in the Caribbean Basin today.

Mr. TRAVIS. I disagree with that.

Mr. DELIN. Facts are facts, and I think the testimony before committees will bear out the testimony.

Mr. GUARINI. Is there a percentage of content they have to meet?

Mr. DELIN. If they use up their quotas they are seeking other areas from which they can ship goods to the States and they are opening large factories in the Caribbean. Go to Jamaica and you will see large factories with fences around them and they don't want anybody coming in.

Mr. TRAVIS. Nothing could be further from the truth. The 807 program is dominated by American companies. There is a specific requirement built into the special access program which mandates that they use American cloth in manufacture of those goods, so we have seen American companies bring back jobs as a result of that program.

Mr. GUARINI. Would you repeal 807——

Mr. DELIN. I love 807. Don't say that word repeal.

Mr. GUARINI. You seem to indicate that it wasn't enough.

Mr. DELIN. No, what we are specifically asking for with respect to this bill, this bill doesn't recognize this special program that 807, it makes no recognition of the importance of the Caribbean Basin and importance of the special access program which is to spur development, both for American textile workers, apparel workers and their companies.

Mr. GUARINI. Mr. Delin, you think 807 is contrary to national interest?

Mr. **Delin**. That is why I tried to differentiate between textile and apparel. The administration threw a bone to the textile industry and said okay, we are going to start the Caribbean Basin so long as they use American textiles.

But they took textiles which perhaps would have gone into our factories, and put it on a boat or plane to the Caribbean Basin and that is why I have to differentiate between textiles and apparel, a significant difference.

Mr. **Guarini**. Do you think the committee should differentiate between textile and apparel in its overall philosophy toward trading agreements?

Mr. **Delin**. I think they should because what is happening if they are going to give textiles certain benefits, then certain things should be taken into consideration for the apparel industry.

Mr. **Guarini**. So all the advantage they are giving the apparel industry in trying to help the working man, the textile industry, which is in good shape is being the beneficiary?

Mr. **Delin**. Right.

Mr. **Guarini**. Do all of you agree with that. Hearing no objection——

Mr. **Bauch**. I am not sure that we could be characterized as agreeing with it on behalf of Levi Strauss. I think the 807 program has benefits. I think the numbers in the program are relatively small as compared to the programs elsewhere.

Section 807 is not a program which is generated solely by a desire to help the textile industry. I don't pretend to speak to matters of national policy but I believe one of the areas involved is helping our partners in a critical strategic area for us.

Section 807 is largely an American effort in Mexico and the Caribbean Basin from what we have seen of it. There are Japanese manufacturers coming in, as far as we can tell that is a relatively small matter although I don't pretend to speak with authority on that subject.

Mr. **Guarini**. Do you spin your own textiles?

Mr. **Bauch**. No. Levi Strauss is solely a manufacturer of goods. We don't make fabric, we own no retailing facilities.

Mr. **Guarini**. What percentage of textiles do you use from overseas as compared with domestic textiles?

Mr. **Bauch**. In our principal product, which are jeans made of denim, it is for all practical purposes 100 percent American manufactured.

Mr. **Guarini**. What about the rest of your manufacturing?

Mr. **Bauch**. In the case of some noncotton products and tops, it is almost all shirts are sourced offshore. I don't know what the fabric content is, although I would guess it is principally foreign manufacture.

Mr. **Guarini**. Considering your gross, what you purchase, most of what you purchase is American made?

Mr. **Bauch**. The enormous bulk in terms of dollars is American made purchase.

Mr. **Guarini**. Thank you.

No further questions.

Chairman **Gibbons**. Mr. Pease.

Mr. **Pease**. Thank you, Mr. Chairman.

I arrived late, I am sorry I did not hear your testimony, so I don't have extensive questions, but I am curious why, with one thing to the extent that any of you are knowledgeable about retailing, there is currently a major campaign going on to promote made in the USA labels for garments. I am just curious whether you have any experience at all as to whether made in the USA on the label has much appeal to consumers?

In other words, if consumers have a choice and the product is made in the USA, is that a marketing tool which is helpful?

Mr. MOUNGER. I would like to venture my opinion, and it is strictly an opinion, Mr. Pease, I would say the first thing the customer looks at is the fashion of the garment, and the person—man or woman, boy or girl—would look at fashion of the item. That is number one.

Second, they look at the price, and those two things are very close together. I like it, but can I afford it.

And then there are other factors that go into decisionmaking process. One of those is the made in America label. I think some consumers look for made in America, but I do not think it is a significant factor in terms of making a selection. That is my honest belief.

Mr. PEASE. Anybody else have any experience?

Mr. DELIN. I would add to what the gentleman just said, I think many of the major department stores are getting into the quick response, private label entity, which they can turn over various styles at the quickest pace so they can get more customers into the store and show them a variety of styles and various fabrics more frequently. This would be made in America labels and shops and factories in the United States.

Mr. PEASE. Thank you very much, Mr. Chairman.

Mr. SCHULZE. I also apologize. I had to attend another meeting. Can you tell me a little bit about our textile exports. Do any of you directly export? How about Levi Strauss, I presume you could export or franchise or have a licensing agreement with other parts of the world?

Mr. BAUCH. Excuse me, I think, as I said at the outset of my testimony—it wasn't in my written remarks for which I apologize—Levi Strauss does not make any fabric. We sew it and put it together in the form of——

Mr. SCHULZE. I am talking about exports of product.

Mr. BAUCH. We do export jeans from the United States to Europe, Japan, and to a more limited extent, to Canada. That is not a major factor in our business. We find that for our products that we are better off to manufacture the goods in the countries or the areas that we are selling, sourcing the fabric in the most cost efficient way. It is the case that in Europe we do manufacture jeans. We buy a fair amount of American fabrics for that manufacture. We find that in some countries in Europe—notably France—the made in America label has actually a premium price.

Mr. SCHULZE. France?

Mr. BAUCH. In France for jeans. I think that whether made in America is a detriment or an incentive depends in part on the garments.

Mr. SCHULZE. Mr. Bauch, does your company expend any effort in trying to broaden your export market?

Mr. BAUCH. At the moment, sir, we would love to expand our market, but the major constraint is denim. Currently denim is in very short supply. High quality denim, for all practical purposes, is sold out.

Mr. SCHULZE. Do you have any of your own denim production facilities, or are you vertically or horizontally integrated?

Mr. BAUCH. No, we are not vertically integrated in any way. We find that we know how to manufacture jeans and have looked at vertical integration as something we simply can't do. The two industries are quite different. And there are very efficient, very capable people in the textile manufacturing area that I don't think we could compete with, nor do we want to.

Mr. SCHULZE. What I am getting at, of course, is how could we increase our exports, No. 1, and No. 2, how could we reduce or eliminate any barriers we experience in other countries? I am getting blank stares. None of you export?

Mr. BAUCH. I was looking round. I think I might represent the only people here who do a substantial amount of export business. We find that there are a couple of barriers to entry, but that principally in recent years one of the major problems has been that the currency fluctuations. You can hardly build a business of shipping to Europe if the currency is going to swing back and forth on you by factors of 20 to 30 percent.

We have built a fairly profitable business in Japan, using a combination of goods manufactured in the Philippines, in Japan, and U.S. made goods.

We have, by the way, gotten excellent help from the Trade Representative when we encountered barriers.

Mr. SCHULZE. There are methods for insuring your currency against currency fluctuations, isn't that correct?

Mr. BAUCH. We have looked at those. They are ungodly expensive. For all practical purposes you have to borrow forward to hedge. The cost of the hedge—I hasten to add I am not a financial officer—tends to set up the certainty that you get.

Mr. SCHULZE. If I am not mistaken, at least one or maybe more than one, Federal Government program does that. I think manufacturers and exporters should take advantage of these Federal programs if currency fluctuation is a major problem.

Mr. BAUCH. I will certainly look into it.

Mr. SCHULZE. Can this panel give me a few words on the bilateral textile agreements that we have negotiated with Hong Kong and Korea and Taiwan? What are your thoughts on how the MFA is working and where it is going?

Mr. MOUNGER. I would like to take a shot at that, if I could. I just was at a dinner in Taiwan, Taipei, Taiwan, biting into Peking duck and the person on my left side said, "what is the future of our apparel industry? We have had a reevaluation of it in the dollars about 16 percent against the U.S. dollar here in the last week and frankly I am scared about the future of the Taiwan garment manufacturing business."

I said to this person, frankly you do have reason to be concerned. I said your only chance is to go into fashion and do some other things, because with the tough bilateral negotiations, the agreements that have been negotiated, we are not going to be buying as much from Taiwan in the future.

Hong Kong, the market is absolutely chaotic. People talk about China and low wage rates and everything else—the apparel importing community is scared to death to do business with China right now. One of our Seattle apparel firms in my association, has three 747s sitting on the runway of Beijing Airport. They couldn't get off because they couldn't get a visa to get into the United States. The 14 years that I have been going overseas I have never seen such a chaotic market because 2 years ago, when Mr. Yeutter first came on the job, he said he was going to be tough in his negotiations. He did a job that was no favor to the American importing community. It was a real benefit in my opinion——

Mr. SCHULZE. Are you saying that living up to international agreements is not the thing to do?

Mr. MOUNGER. No sir, not at all. We should absolutely live up to our negotiated bilateral agreements. We support the bilateral agreements that have been negotiated. What I am saying is it is a lot more difficult to import apparel today than it used to be and that is why I am saying I think the negotiations that have taken place are tough, but they are fair, and we can live with them. But the new bill, we do not think we can live with.

Mr. SCHULZE. Now, let's follow up on that. It is more difficult to import today than it was. Is that because Customs and others are doing their job a little bit definitively?

Mr. MOUNGER. Customs is very definitely doing their job and they are policing it very tough, as well they should. That is part of the results of playing the game. That is part of the puzzle, part of the equation of bringing goods in is dealing with U.S. Customs, and we had a meeting with them this morning before we came over here and they are fair, firm, and tough, and I have a great deal of admiration for them.

Mr. SCHULZE. Those of us on this side of the desk have been after them for some time to do just exactly that. We want these negotiated international agreements to be fulfilled. We and you know of instances where they have been ignored totally and huge amounts of textiles and finished goods have come in above quota levels. We just cannot have that if we are going to negotiate these agreements.

Mr. MOUNGER. Yes sir.

Mr. SCHULZE. Do you, or does the industry have any figures which show that customers actually save by buying imports? The reason I ask is this: I hear that all these imported, inexpensive textiles save the consumer millions or billions of dollars. I find that hard to believe because when I look at imported products in a store, there is usually only a few cents difference in price between domestic and imported goods.

Now, if you tell me that the retailer makes a bigger profit and therefore uses that money somewhere else, I can understand that; but I don't see, from my own experience, where the customer is getting any great savings in these imported products.

Mr. MOUNGER. Well, I believe that you are going to see in the fall season of this year, significantly higher prices to the consumers in almost every category from imported goods. It is because goods are more expensive overseas because there are fewer numbers that can be brought in.

Mr. SCHULZE. Does anybody track that? That would be interesting.

Mr. MOUNGER. I think it would be interesting. I can't tell you what the results are, but in respect to my associates in the industry, everyone says prices will be up and it is going to have impact on inflation in the United States because the foreign producers have *x* amount of quota available and they are not going to give it to the low price goods, they are going to be making more of the high price goods.

I think the significant impact is going to be on the low and middle income families.

Mr. SCHULZE. Isn't that their edge price? Isn't that the big edge for imported fabrics?

Mr. MOUNGER. Sir, I would have to say price is one part of it. I truly believe that you can get sometimes a better product overseas than you can made here in the United States. I realize that is a tough thing to say, and my associates over here may disagree with that, but I have seen it from the domestic side and from the importing side, and I represent both in my testimony here today, but in the outer wear industry, which is very, very labor intensive, I think you are going to see a better quality of workmanship from Asia today than you are from the United States.

I am sorry that I have to say that but I will stick by that 100 percent.

Mr. SCHULZE. That is in finished goods?

Mr. MOUNGER. Yes sir.

Mr. SCHULZE. Not just in fabrics. Aren't most of our exported fabrics at the higher end, are higher quality goods?

Mr. MOUNGER. Yes sir.

Mr. SCHULZE. Thank you, Mr. Chairman.

Chairman GIBBONS. Let me, Mr. Travis, go to the 807 question. As I understand it, 807 works like this:

You have that piece of cloth there and you cut it, it must be American cloth, and you must cut it with American labor, and have it all ready for fabrication. Is that the way it works? Before you send it out of the country?

Mr. TRAVIS. For the purpose of the special access program, yes. In other words, the preferential quotas in the Caribbean, that is how it has to work. For tariff preferences it doesn't have to be.

Chairman GIBBONS. For the tariff preferences it can be foreign cloth?

Mr. TRAVIS. That is right. It can be foreign cloth, imported into the United States, duty paid, cut in the United States, then sent out and brought back again.

Chairman GIBBONS. Oh, I see.

Mr. TRAVIS. For the application of the quota preferences, it has to be U.S. knitted or woven fabrics.

Chairman GIBBONS. What kind of quota preference do you get under 807?

Mr. **Travis**. Well, they set up a thing called guarantee access levels for 807 merchandise, which again is made from component parts, which are made from American knitted or woven cloth.

There is a special set of quota limits that have been negotiated with four Caribbean countries. I can submit that to the subcommittee staff, if they would like to have it, a list of those countries and what the levels are. Of course, STR and Commerce have them as well.

Chairman **Gibbons**. Yes.

Thank you very much.

Next is the panel of American Association of Exporters & Importers, International Footwear Association, Florsheim Shoe Co., and National Fashion Accessories Association.

Our first witness is Julia Hughes, who represents the Textile and Apparel Group of the American Association of Exporters & Importers.

STATEMENT OF JULIA K. HUGHES, COCHAIR, TEXTILE & APPAREL GROUP, AMERICAN ASSOCIATION OF EXPORTERS & IMPORTERS

Ms. **Hughes**. Good afternoon, Mr. Chairman, members of the subcommittee, my name if Julia K. Hughes. I am the Washington trade representative of the Associated Merchandising Corp. I appear before you today as cochairperson of the Textile & Apparel Group of the American Association of Exporters & Importers to testify in opposition to H.R. 1154, the Textile and Apparel Trade Act of 1987. AAEI-TAG is comprised of over 100 textile and apparel importers located throughout the United States.

AAEI-TAG has testified on many occasions before this subcommittee on the dangers of yielding to domestic textile and apparel industry pressure for greater import protection. The textile and apparel lobby's arguments in support of textile quota legislation have been the same for decades—rising imports, inability to compete, loss of jobs and a doomed industry. The domestic textile and apparel industries have never admitted that they are pleading for special protection. They claim they are just asking for a chance to compete. In 1956, Senator Payne argued:

> The textile industry does not seek favors. But it does ask, President, that the burden of ever increasing imports not be added to its other troubles. The industry seeks a chance to adjust, to work out its problems, so that once again it can stand strong against all competition from whatever source.

Thirty years later, the industry has not disappeared, but we are still hearing that tired old refrain. The industry has not only survived but it is thriving and prosperous. The textile producing States have lower unemployment rates than the rest of the country and in fact, they are experiencing labor shortages in the textile industry.

In light of the healthy competitive state of the domestic textile and apparel industries, and the over 30 years of import protection that these industries have enjoyed, the committee should be considering the reasons why existing protection should be phased out. It is shocking that the domestic industry is in fact asking for even greater protection. What they are truly seeking is a guaranteed share of the market and protected profits in perpetuity, without having to prove their case and without taking into account the interests of other industries and consumers.

Last year the domestic textile and apparel industries used their same discredited arguments to urge members to override the President's veto of H.R. 1562. Even though the veto override failed by a narrow margin, the domestic industries were successful in using the legislative threat to force the administration to negotiate an expanded new multifiber arrangement and highly restrictive bilateral agreements. This was at the same time that the domestic textile and apparel industries were enjoying record profits, peak capacity utilization, productivity increases and employment gains.

The increased restrictions resulting from these agreements, and the industry's high level of performance are among the factors creating inflationary pressures in the apparel market. Clothing prices increased 4.6 percent in the first quarter of 1987, the largest increase since the Labor Department began keeping these figures in 1977.

Mr. Chairman, we have prepared a packet of clippings from the textile and apparel trade press over the last 8 months documenting the positive state of the domestic textile and apparel industries. I ask the committee's permission to have these clippings included in the record of the hearings.

[The clippings follow:]

APPAREL GROWTH

"US Knitwear Rally Told Boom Coming," Women's Wear Daily, September 10, 1986.

> . . . "The American knitting industry is about to embark on a five-year expansion that will spell good times for spinners, knitters and kitwear manufacturers'" predicted Joseph Leff, president of National Spinning Co. . . .
>
> Leff pointed out that knitwear -- unlike tailored woven fashion -- is unconstructed, which means that competition from imports, with their lower labor costs, is "minimized." He also noted that knitwear needs the smallest turnaround time of any fashion merchandise, so it can offer quick response to retailers. . . .
>
> Seth Bodner, executive director of the National Knitwear and Sportswear Association, which is sponsoring the 1986 Yarn Fair -- under whose auspices the rally was held -- summed it all up this way:
>
> "There is no question about it: The American knitwear industry is alive and well and on the move."

"See Prices Up 3% to 5% for Fall '87 Suits," Daily News Record, November 18, 1986.

> . . . [P]rice increases averaging 3 to 5 per cent are already being forecast for next season's suits and sport coats.
>
> Several reasons are cited, and they're both related to fabrics. First and foremost are the substantially higher fabric costs in Italy, Japan and the U.K., resulting from the depressed value of the dollar. To offset this, fabric buyers have had to limit their purchases in these countries and come up with new sourcing where prices have held the line. . . .
>
> As a result, fabric sourcing for next season has returned to a growing extent to the U.S. Korea has picked up many new fans along with a number of countries in South America and Eastern Europe. . . .
>
> Echoing the "Buy American" sentiments throughout the clothing business, this merchandiser says his company would like to increase domestic purchases, especially suitings. He

comments, "We've found a tremendous response to the market's needs by a number of American mills. Styling has been upgraded in finer spun goods, and best of all, prices are at, or close, to last year's." . . .

"Legwear & Bodywear", Forecast '87, Women's Wear Daily, December 11, 1986.

Legwear and bodywear manufacturers say they are more bullish about their industry for the new year than they were going into 1986. . . . . body-wear executives see 1987 as "very strong" now that their market has worked through a spell of overstocks and lean buying budgets. . . .

"Fed: Big November Pickup In Textile, Apparel Output," Daily News Record, December 18, 1986.

"September Factory Orders For Apparel Rise 4.6%," Daily News Record, December 24, 1986.

"Weak $ Helps U.S. Items, but Not Too Much," Daily News Record, March 6, 1987.

While maintaining that fashion and value are in most cases still more readily available overseas, many men's wear specialty store executives said that they have been buying more domestically manufactured merchandise than they did a year ago, because of the weak dollar abroad. . . .

[T]hey added that the devalued dollar will result in retail price increases of as much as 20 per cent on many imported items this fall. . . .

Many executives who will be in the New York market next week to shop the NAMSB Show said the weakened dollar has spurred them to ivnvestigate domestic sourcing more vigorously in recent months. Several also cited the need for tighter turns, chronic delivery delays on overseas merchandise and tighter quotas as reasons for leaning more heavily toward domestic producers than they did in the past. . . .

"Activewear Sets Pace in Units Gain For '86," Women's Wear Daily, March 9, 1987.

A study by Kurt Salmon Associates, Inc., Atlanta, projected the gain in women's apparel unit purchases at 3 percent, while a similar report by MRCA Information Services, Stamford, Conn., said unit sales jumped 11.1 percent in 1986 compared with a unit sales decline of approximately 1 percent in 1985. . . .

Sweatshirts, which rose 24 percent in 1985, rose 73.5 percent in 1986 to 82,600,000, according to MRCA projections. Sweatpants went from 9.9 percent growth in 1985 to 58.4 percent in 1986, hitting 27,700,000 units. Sales of women's shorts grew 5 percent in 1985 and 13.6 percent in 1986, reaching 105,200,000 units. In nonactivewear categories, skirts had strong growth in 1986, rising 28.7 percent to 183,200,000 units, after a decline in 1985 of 1.2 percent. . . .

"Fruit of the Loom Freed by Farley For 'Branded Consumer Goods'," *Daily News Record*, March 12, 1987.

> . . . Drexel, Burnham Lambert, the lead underwriter for the Fruit of the Loom stock issue, is projecting a sales increase this year of between 25 and 30 percent and an increase in operating profits of about 30 per cent. . . .
>
> All Fruit of the Loom products sold here are manufactured domestically, and the company is an exporter rather than an importer. . . .

"Both Champion, Russell Expect '87 to Be Strong," *Daily News Record*, March 12, 1987.

> Executives from Champion Products and Russell Corp. told analysts here Wednesday that they expected their athletic and leisurewear businesses to continue strong this year as their companies modernize, expand and diversify. . . .
>
> Both companies are vertically integrated producers of uniforms, athletic wear and leisure apparel bearing logos of colleges and professional sports teams. Both plan aggressive expansion in the next few years. . . .

"Say Apparel Industry May Gain From New Tax Bill," *Daily News Record*, March 30, 1987.

> . . . But industries such as apparel, food and services, which are used to paying high effective tax rates, will benefit more from lowering of the corporate tax rate than they will lose in investment tax credits, depreciation and accounting charges.
>
> This is because the industries have stable markets and consistent profit rates and need little new capital investment. . . .

FABRIC DEMAND

"Demand Still Surpassing Supply As Prices Continue Upward Spiral," Daily News Record, September 26, 1986.

> Demand continued to outrun supply in the gray goods market this week both on domestic and foreign fabrics with prices still on the rise. . . .

"Prices Rise as Shortages Continue to Come to Light," Daily News Record, October 6, 1986.

> Scarcities in a number of industrial gray goods continued to show up last week, with prices moving up as a result. . . .

"U.S.-Made Cloth Booked For 3d Quarter," Daily News Record, October 16, 1986.

> Third quarter buying of American-made polyester/cotton print cloths developed this week as the gray goods market continued to show great strength. . . .

"Many Fabrics Still Scarce, Prices Continue to Move on Up," Daily News Record, October 20, 1986.

> Prices on a variety of gray fabrics used by industrial buyers continued to move to higher levels last week as scarcities this year continued.
>
> Whether it was print cloths, or drills, sheetings, sateens or osnaburgs, mills talked of doing business at increased quotations. . . .

"Gray Cloth Spot Prices Spurt Upward," Daily News Record, October 30, 1986.

> Gray goods prices for quick delivery spurted upward this week as the tight supply situation worsened.
>
> At the same time, buying of domestic narrow blended light-weight cloth broadened for third quarter of 1987 deliveries, and here, too, prices climbed under the pressure of substantial covering. One trader in gray goods told DNR he was running into trouble finding spot delivery in secondhands. In some instances, prices for quick delivery were up as much as 5 cents a yard from the prior week. In the case of polyester/cotton voiles, the leap in prices amounted to 10 cents. . . .

"Denim Rides Crest at Mills," Women's Wear Daily, November 5, 1986.

> As sportswear manufacturers continue to incorporate a variety of denim weights into collections, top textile executives here say the next six months will probably be one of the strongest periods of denim activity in the last decade. . . .

"Horizon Stays Bright for Man-Made Makers," Women's Wear Daily, December 9, 1986.

> This year turned out to be a surprisingly good one for producers of man-made fibers, who report sales and earnings jumped significantly.
>
> With relatively few exceptions, most fiber producers ran their spinnerets full out - or close to capacity - and many chalked up fat profits as efficiencies improved and operating and petrochemical raw materials costs moved down.
>
> The forecast for 1987 calls for more of the same, and most fiber producers from the Brandywine to the Blue Ridge Mountains are betting on another strong 12 months . . . .

"Buying Pace Slackens as Fabrics For 1986 Delivery Become Scarce," Daily News Record, November 14, 1986.

> The pace of gray goods activity slowed this week mainly because finding desired fabric for this year's delivery was difficult. . . .

"Consumption of M-MF Well ahead of '85," Daily News Record, November 24, 1986.

> Consumption of man-made fibers by the U.S. textile industry for the first 10 months of 1986, despite record textile and apparel imports, is well ahead of 1985 totals, according to industry sources. . . .

"Domestic Printers Caught Between Order Flood and Gray Scarcities," Daily News Record, December 8, 1986.

> A scarcity of gray goods has caused domestic printers to become caught in the middle of an extremely volatile market situation. . . .

"Scarcities Continue in Some Areas But Market Stays Extremely Strong," Daily News Record, December 23, 1986.

> A scarcity of several kinds of industrial gray goods continued last week as this area of the textile trade remained extremely strong. . . .

"Cotton Biz Had A Ball in '86; '87 Looks Better," Daily News Record, January 7, 1987.

"Buyer Demand Strong, Print Cloth Prices Up," Daily News Record, January 7, 1987.

> The gray goods market got the New Year off to a strong start this week, and prices of print cloths rose as the scarcity of cloth continued. . . .

"'88 Print Cloths Moving Fast; All Prices Up," Daily News Record, January 16, 1987.

> Buying of print cloths for delivery in 1988 broadened this week, with several million yards reportedly booked, as the gray fabric market continued to show amazing strength. . . .

"Prices on Various Fabrics Shoot Upwards as Scarcity Continues," Daily News Record, January 19, 1987.

> Prices on a wide range of industrial gray fabrics went sharply higher last week as the scarcity of goods continued.
>
> Adding to the problem of converters was the failure of certain imports to arrive in the fourth quarter. This has aggravated an already tight supply problem. . . .

"Most Mills, Sold Through June, Starting 3d Quarter," Daily News Record, January 26, 1987.

> Most mills making heavy industrial gray cloth reported last week they were now openning their books on third quarter deliveries. . . .

"Slight Rise Expected In U.S. Mill Cotton Use," Journal of Commerce, January 28, 1987.

> U.S. textile mill cotton consumption in 1987-88 should be just slightly higher than the 1986-87 estimate of 7

> million bales, as mills almost have reached their cotton-use capacity, a National Cotton Council economist said.
>
> If market conditions remain farily stable, U.S. mill cotton consumption may increase by as much as 5% from 1986-87, Dean Ethridge said at the annual Cotton Council meeting.
>
> By the end of this marketing year, Mr. Ethridge said, domestic mills may be within a few percentage points of their practical capacity for cotton textile production. . . .

"Tight Supplies Continue to Push Up Prices for U.S. and Foreign Goods," Daily News Record, February 2, 1987.

> The great majority of gray fabrics used for industrial purposes moved up in price last week as tight supplies in both domestic and foreign makes continued. . . .

"Prices Continue to Rise as Demand Persists; Mills Pressed for Deliveries," Daily News Record, Februay 12, 1987

> Industrial gray goods prices continued to escalate last week as the demand for the fabrics showed no signs of easing.
>
> Buyers who have long followed conservative policies where gray cloth ownership was concerned, sticking to two or three months purchasing, were in the market seeking deliveries that mills found increasingly difficult to provide. . . . In general, mills reported their production booked through third quarters on the majority of items. . . .

"Tight Supplies Send Prices Higher," Daily News Record, February 20, 1987.

> The steady increase in gray print cloth prices continued this week as tight supplies again forced converters to pay more for quick deliveries. . . .

"Prices Push Up As Shortages Undiminished," Daily News Record, February 27, 1987.

> The general shortage of gray fabric was undiminished this week, with prices continuing to rise as a result.

> Mills reported heavy pressure for a wide range of goods, and more and more weavers talked of their inability to come up with spots or any 1987 deliveries. . . .

"Fleece a Major Force in U.S. Yarn Biz Boom," Daily News Record, March 2, 1987.

> Domestic spinners selling cotton and blended yarns are experiencing a surge in business as a result of the boom in knit goods, especially fleece.
>
> The increase in business began about five months ago, mills report, and the steady demand is expected to continue through at least 1987 and possibly beyond. . . .

"Print Cloth Buying Abounds For Second Quarter of '88," Daily News Record, March 6, 1987.

> Buying for second quarter of 1988 deliveries of print cloth was reported for the gray goods market this week as several converters made substantial commitments in the face of continued scarcities.

"'87 Big Year For Circular Knits: Execs," Daily News Record, March 9, 1987.

> The circular knit business is enjoying one of its best seasons in many years, according to knitting executives. Several companies are having a record sales year, and orders for third quarter '87 are good.

"Mill Execs See Denim Boom Holding Up Through Yearend," Daily News Record, March 12, 1987.

> Business is booming for the U.S. denim industry and mill executives see the trend continuing at least through the end of this year. . . .
>
> "The denim market is as strong as I've seen it in the past five years," said Arnold Elder, vice president of Swift Textiles, "It should maintain through 1987." . . .

"Buyers Rushing to Find Fabrics; Prices Still Climb," Daily News Record, March 21, 1987.

> There was a scramble among buyers to find several types of industrial gray fabrics last week and prices on these goods continued their strong advance. . . .

"Gray Print Cloths Booked Into '88," Daily News Record, April 6, 1987.

> Mills booked gray print cloths through the first quarter of 1988 during the month. Late in the period, buying shifted to second quarter as well. Bottomweights were mostly sold for this year and prices jumped. Late in the month spot prices for several numbers in great demand dropped off as the apparel season ended for many converters.

"Scarcities at Mills Cause Slowdown in Trading Pace," Daily News Record, April 24, 1987.

> A slower trading pace in gray goods this week was attributed by market observers to the sold-up positions of mills. . . .
>
> Generally, however, it was another week of scarcities on many types of gray cloth. . . .

MILL GROWTH

"Fed: July Mill Production Highest in 2 Years," Daily News Record, September 18, 1986.

> Textile mill production in July reached its highest level in almost two years, according to a Federal Reserve report.
>
> Textile-mill output, as measured by the Fed's seasonally adjusted index of industrial production, reached 112.8 in July, 8.9 per cent higher than the July 1985 level and equal to the revised level for July 1984. . . .

"Textile Mills' Output in July Sets Record," Women's Wear Daily, September 22, 1986.

> Textile mills operated at 91.2 percent of capacity in July, the highest level this year and a reflection of the continued rise in textile output, reported the Federal Reserve Board. . . .
>
> The rise in capacity utilization coincides with growth in textile mill output from 108.6 in the first quarter of 1986 on the Fed's seasonally adjusted index, to 111.8 in the second quarter. . . .

"Mill Capacity at 91.7% In August; Best for Year," Daily News Record, October 21, 1986.

> Textile mills operated at 91.7 per cent capacity in August, the best performance all year, the Federal Reserve reported.
>
> Figures released by the Fed show mills have been steadily increasing their operating capacity since the start of the year, when capacity utilization stood at 87.5 per cent. August's figure brings textile mills close to the 1973 capacity operating high of 92.1 per cent. . . .

"Mill Output Expected to Increase for Year," Women's Wear Daily, November, 1986.

> The dropping of unprofitable product lines and new investment in machinery has made the textile industry one of the leaders of a "new era" in U.S. manufacturing, according to an economic analysis by the U.S. Chamber of Commerce. . . .

"Textile Production Hits a New High on Fed's Index," Daily News Record, November 17, 1986.

> Textile mill production reached a new high on the Federal Reserve Board's index of industrial production in September, while production of apparel products rose to its best level in five months, the Fed reported Friday. . . .

"Textile Mills Hit 93.8% Capacity In September - a New High, Says Fed," Daily News Record, November 19, 1986.

> Textile mills were operating at 93.8 per cent of total capacity in September, the best performance all year and better even than the 1973 high of 92.1 per cent, the Federal Reserve reported Monday. . . .
>
> According to the Fed's seasonally adjusted index of capacity utilization in industry, both output and capacity at textile mills has improved steadily all year. . . .

"Ga., Ala. Mills Set Hefty Budgets, Eye More Capacity," Daily News Record, December 1, 1986.

> Open-end spinning frames and air-jet looms are popular items on the capital spending lists of Georgia and Alabama textile firms in 1987 on budgets that equal or exceed 1986 budgets.
>
> Company executives who were polled said they will add capacity to existing plants by adding up-to-date machinery. Only one company plans to add a new facility. . . .

"Mills Plan 4% Boost in Outlays in "87," Daily News Record, December 19, 1986.

> Spurred on by the Quick Response drive, textiles is one of the few U.S. industries planning meaningful increases - up 4.1 per cent - in spending for plant and equipment in 1987. . . .

"U.S. Textile Shipments Increase 4%," Journal of Commerce, December 24, 1986.

> Domestic textile shipments rose by 4% this year from 1985 to $54.7 billion, the American Textile Manufacturers Institute said.

The domestic textile industry's earnings on sales were 3.8%, up from 2.4% in 1985, according to the Institute. Industry employment increased by 1% to 706,000 workers, and average hourly wages, at $6.93, were 3% higher. . . .

"Textile Output Increases For Third Straight Month," Daily News Record, January 20, 1987.

Apparel and textile production increased in December for the third month in a row, helping to spur an increase in the output of consumer goods which in turn pushed the nation's overall industrial production rate up 0.5 per cent, the Federal Reserve Board said. . . .

The improvement in the nation's industrial performance came as no surprise to many economists who had been expecting good news since the Labor Department's recent report that the unemployment rate reached 6.6 per cent in December, its lowest level in a year.

"Swift Textiles to Expand, Up Denim Output by 50%," Daily News Record, March 12, 1987.

In a major expansion program, Swift Textiles, Inc., will add 74,000 square feet of floor space to existing facilities and increase denim output by 50 per cent. . . .

The program will add about 300 jobs to Swift's existing work force of 1,050. . . .

"Stedman Begins $7.5M Expansion of Facilities," Daily News Record, March 19, 1987.

Stedman Corp. has begun a $7.5 million expansion of its manufacturing facilities that will increase its production capacity 60 per cent by October, according to Lee Linetobe, president and chief executive officer. . . .

"We are very pleased that we can meet increased demand for our products by expanding existing North Carolina facilities," Linetobe said. . . .

"ATMI's hot topic: Will the boom last?," Women's Wear Daily, April 6, 1987.

. . . A weakening dollar coupled with growing disillusionment over import programs is encouraging many import-oriented companies to source in America. . . .

> A dramatic change in the mindset of textile management has broadened product mix, quickened response time and made possible shorter runs of more innovative and fashionable fabrics. . . .

"U.S. Hosiery Output Peaks In '86: NAHM," Daily News Record, April 21, 1987.

> Domestic hosiery manufacturers turned out more total hosiery products in 1986 than in any previous year according to figures released by the National Association of Hosiery Manufacturers (NAHM). . . .

PROFITABILITY AND INVESTMENT

"Sales Ahead 8.8% at Major Stores," Daily News Record, October 10, 1986.

> Retail sales were up a modest 8.8 per cent in September for 15 of the nation's major retailers. . . .
>
> Department store chains . . . boasted of strong apparel sales. . . .

"Study Finds Foreign Competition Shaped Up Textile Industry in SE," Daily News Records, October 16, 1986.

> The textile and apparel industries in the Southeastern United States have emerged leaner and fitter from five years of stiff foreign competition, according to a University of Virginia study. . . .
>
> Companies have shut down outmoded plants, while consolidating and modernizing others, phased out vulnerable lines and concentrated on the development of new fabrics.
>
> Some apparel firms, in an attempt to compete with imports, have marketed designer fashions that will go out of style before foreign companies can copy them. Others have entered into 807 programs using sewing plants in the Caribbean area. . . .
>
> Profits also moved up early in 1986, after being under "severe pressure" in the 1984-85 textile industry recession, says the study. All but two of the 13 publicly-held companies outperformed the Dow Jones Industrial Average, and at least five reported increased earnings this year. . . .

"Accessories, Apparel Sales Soar in August," Daily News Record, October 20, 1986.

> Sales of apparel and accessories were up strongly in August, the Commerce Department reported Thursday. . . .

"Analyst Sees Continued Rebound for Textile Industry in '86," Daily News Record, October 20, 1986.

> Major textile companies should continue to recover handsomely from last year's slump, showing profit increases in the 35 per cent range for 1986, an analyst told industry representatives here last week. . . .
>
> As for apparel, Meltzer expects leading public companies to show a 25 per cent improvement in 1987, but offered no projections for 1986. . . .

"Burlington reports profit in 3, 9 months," *Women's Wear Daily*, October 22, 1986.

> . . . For the year, earnings soared 349.6 percent . . .
>
> Frank S. Greenberg, chairman and chief executive officer, said the higher operating earnings for the year were due to improvement in several apparel fabric markets, lower raw material costs and the realization of benefits from ongoing cost reduction and restructuring programs. . . .

"Palm Beach Pre-Tax Operating Net Up 46%," *Daily News Record*, November 10, 1986.

"FNS Index Up 1.5% as Solid Textile Front Offsets Mixed Moves," *Women's Wear Daily*, November 12, 1986.

> Led by a 4.2 percent climb by the textile group, the Fairchild News Service Index of retail, apparel, textile and cosmetics stocks was up 1.5 percent last week. It easily outpaced the Dow Jones Industrial Average, which was up 0.5 percent for the same period. . . .

"Analysts: '87 Even Better Year for Mills," *Daily News Record*, December 4, 1986.

> The wheels are in motion for a stronger textile industry as cost controls and consolidation are driving profits ahead this year, and analysts expect continued improvement into 1987. . . .
>
> Jay Meltzer, textile analyst with Goldman, Sachs, said that although the textile industry in America is "mature with zero long-term growth prospects," profits will continue to rebound as costs come under better control and textile makers streamline operations. . . .

"Textile Mills' 5.4% Increase Lights Up Index," *Women's Wear Daily*, December 10, 1986.

Led by a strong increase from Burlington Industries, the textile mills group climbed 5.4 percent last week and helped push the Fairchild News Service Index of retail, apparel, textile and cosmetics stocks up 0.3 percent. . . .

"Apparel Net Up at Burlington," *Women's Wear Daily*, December 12, 1986.

Operating earnings for the apparel segment of Burlington Industries, Inc., rebounded in the year ended Sept. 27 to $94,700,000 from a virtual break-even of $300,000 last year. . . .

"Analysts See Continued Pickup in '87 for Fiber Industry Earnings, Stock," *Daily News Record*, December 15, 1986.

Better operating rates coupled with lower raw material and energy costs have meant a pickup in earnings and good stock performances for the fiber industry this year, and Wall Street analysts expect this trend to continue into 1987. . . .

"Wall Street Goes Bullish on Man-Made Fibers in '87," *Women's Wear Daily*, December 15, 1986.

More efficient production coupled with lower costs for raw materials and energy have meant a pickup in earnings and good stock performances for the chemical fiber industry this year. Wall Street analysts expect the trend to continue into 1987. . . .

"Study Sees Textile Profits In U.S. Rising 20% in 1987," *Daily News Record*, December 22, 1986.

The domestic textile industry can expect profits to increase 20 per cent and industry shipments to rise 2 per cent in 1987, according to a recently released study by Kurt Salmon Associates, Inc. on the Soft Goods Outlook for 1987. . . .

In the first half of 1986, at the height of the thrust for passage of the Textile and Apparel Trade Enforcement Act, textile profits nearly doubled, according to the report. . . .

> Also contributing to the optimistic outlook are the recently enacted cotton price equalization program, the decline in the value of the dollar and a stronger Multi-Fiber Arrangement. . . .

"Analysts See an Industry Rebound for '87," Women's Wear Daily, December 29, 1986.

> . . . For the 13 [apparel] companies on the FNS [Fairchild News Service] chart, total earnings went up 9 percent from a year ago and sales were up 3.5 percent. Some had dramatic swings in earnings, but these were mostly accounted for by abnormal circumstances. . . .
>
> But analysts agree the industry is recovering from its depressed state of a year ago and stands to do reasonably well in 1987. . . .

"WestPoint's Cluett Has Operating Net Of $33.6 Million in 8 1/2 Months," Daily News Record, December 30, 1986.

> . . . WestPoint's recently released 1986 annual report . . . disclosed that the company's apparel fabrics segment returned to profitability in 1986, and that its other two segments, household and industrial fabrics, also contributed to the overall improvement in operating results. . . .

"New Intex President Predicts Big Year for Firm, Textile Biz," Daily News Record, January 5, 1987.

> . . . "We're concentrating on the textile business because we believe the (domestic) textile industry has a bright future," Foster said. . . .

"M-MF Execs See Another Good Year," Daily News Record, January 5, 1987.

> The U.S. man-made fiber business in 1987 will continue the strong performance set in 1986, fiber executives feel. The least optimistic said they expect to equal 1986, and several told DNR they see a 2 to 3 per cent increase for this year. Margins are expected to hold or improve. . . .

"Sara Lee Sees 2d Period Strongest in Year," Daily News Record, January 26, 1987.

"Thomaston Net Soars in Half, Qtr.," *Daily News Record*, January 26, 1987.

> . . . Thomaston Mills, Inc., increased about fourfold in both the second quarter and six-month period that ended December 27, 1986. . . .

"Guilford Net Up 18.7% in Period," *Daily News Record*, January, 1987.

> Guilford Mills, Inc., reported net earnings advanced 18.7 per cent in the quarter and 7 per cent in the half ended Dec. 28. . . .

"Oshkosh Net Rises 50.9% in Quarter," *Women's Wear Daily*, February 26, 1987.

"Genesco Returns to Black In Fourth Quarter, Year," *Daily News Record*, February 26, 1987.

"Delta Woodside's Profits, Sales Improve in 2d Period," *Daily News Record*, February 27, 1987.

"New J.P. Stevens Seen Set to Turn Bigger Profits," *Daily News Record*, March 4, 1987.

> With the period of radical change behind it, J.P. Stevens & Co., which now has a product mix of 63 per cent home fashions, 24 per cent industrial products and 13 per cent apparel fabrics and yarn, is beginning to realize its full earnings potential, Whitney Stevens, Chairman, told stockholders Tuesday. . . .
>
> Improved results for the company's first quarter were largely a function of continuing good textile market conditions, "but the company is doing a better job, too, in most areas," Stevens told shareholders. . . .

"Analysts See SA '87 Profits as Decent," *Women's Wear Daily*, April 9, 1987.

> . . . [F]ull-year profits for a group of 15 major apparel companies were ahead of last year's level, and analysts expect decent results for 1987. . . .

> "It will be a good year for the apparel industry in general, but not a great year," . . . "The new tax law is going to give everyone a bit of a boost." . . .

"Quarter Operating Net Up At Burlington Industries," Daily News Record, April 17, 1987.

> Citing improving trends in most apparel fabric markets and in certain industrial and home furnishings areas, Burlington Industries reported improved operating earnings in the second quarter and six months ended March 28. . . .

"Apparel Makers, Retailers Choose US Over Far East Sources: AAMA," Daily News Record, April 21, 1987.

"VF Net Up 26.9% In Quarter As Sales Forge Ahead 83.6%," Women's Wear Daily, April 22, 1987.

> Lawrence R. Pugh, chairman, further reported at the annual meeting here Tuesday that with generally improved conditions in certain product groups, especially the jeans and casual apparel business and the fleece activewear market, earnings improvement for the second quarter is expected to equal the first quarter, with continuing improvement as the year progresses. . . .

"Retail Prices Of Men's, Boys' Rise in March," Daily News Record, April 27, 1987.

> Retail prices for men's and boy's apparel in March increased 1.8 per cent from February prices and 2.6 per cent from March 1986 prices, the Labor Department reported Friday. . . .
>
> The department said the higher apparel prices were caused by the introduction of new, higher-priced spring and summer fashion styles, and the declining value of the U.S. dollar which is making imports more expensive. . . .

"Du Pont Fibers Unit Earnings Climb 79.3% in 1st quarter," Women's Wear Daily, April 28, 1987.

> . . . A spokesman for the company said that the earnings of the fibers segment were helped by improved fibers sales, the success of the company's Stainmaster carpet program, the

> continuing growth of the specialty fiber business, which includes the Lycra Spandex fiber, and improvements in the large volume apparel fibers segment. . . .

"Claiborne Net Jumps 42% In First Quarter," *Daily News Record*, April 30, 1987.

> Liz Claiborne, Inc. continued to outperform apparel analysts' expectations in the first quarter with an earnings increase of 42.2 per cent on a sales gain of 35 per cent. . . .
>
> In addition, the company said it has increased its quarterly divident on common stock to 8 3/4 cents a share, which equals an annual rate of 35 cents, a 40 per cent increase over last year's annual rate. . . . Liz Claiborne also declared a two-for-one stock split of the company's common stock. . . .

EMPLOYMENT

"Labor: Textile, Apparel Jobs Total Steady in October," Daily News Record, November 10, 1986.

"Apparel Makers Face Worsening Labor Shortage," Daily News Record, November 25, 1986.

> Apparel manufacturers in Greenville County say they are having problems getting sewing room employees and the labor shortage is getting worse just at a time when many of them are cautiously optimistic that their battle with imports will get easier in 1987.
>
> Ironically, some manufacturers say they will have to shift work out of plants in the Greenville area - some may even go overseas - because of the labor problem. . . .

"11 New Textile and Apparel Plants Came to SC Drawing Boards in '86," Daily News Record, December 31, 1986.

> Plans to open 11 new textile and apparel plants in South Carolina were announced in 1986, representing approximately $33 million in new investment and 888 new jobs, according to the South Carolina State Development Board.
>
> Expansions during 1986 by textile companies already operating in South Carolina . . . will create 1,154 new jobs. Expansions . . . by existing apparel companies will create 753 new jobs, according to board figures. . . .

"N.C. Textile, Apparel Jobs Increase During October," Daily News Record, January 7, 1987.

"Textile Employment Peaks in December; Apparel is Up," Women's Wear Daily, January 13, 1987.

> Employment in the textile industry in December increased to 719,000, the highest level in 1986, and the apparel industry work force rose to 1,124,000, the second highest of the year, the Department of Labor reported. . . .

"South Carolina Textile Employment Increased by 700 During January," Daily News Record, March 3, 1987.

> Despite an increase in South Carolina's unemployment rate in January fueled by moderate losses in the state's manufacturing sector overall, textile employment rose by 700 jobs, the South Carolina Employment Security Commission said Friday. . . .

"Increase in S.C. Apparel Jobs Seen Continuing; New Plants on Horizon," Daily News Record, April 14, 1987.

> South Carolina's apparel employment, which stands at its highest level in almost a year, should continue to rise, especially in light of the fact that at least six apparel makers in the last few weeks have said that they will open new plants or expand existing plants in the state.
>
> Already this year, three new apparel plants have opened in South Carolina and three others have expanded, bringing approximately 350 new apparel jobs to the state, according to the South Carolina State Development Board. Additionally, an official of Greenville-based Stone Mfg. Co., has told DNR that it is hiring 200-300 additional sewing machine operators for its Cherrydale plant here. . . .

Ms. Hughes. This year, despite record profits and the continuation of fabric and labor shortages, the domestic industries once again are back at the congressional well with a new textile quota bill. They argue that this new bill is moderate, complies with international rules, and approximates the growth in demand in the U.S. market. The domestic industries support their claims with questionable statistical and other economic material.

We commend the committee's effort to reconcile the differences in data offered by interested parties. We strongly believe that the import penetration level claimed by the domestic industries is overstated and that the domestic industries' estimate of the rate of growth in domestic consumption is understated. We will submit a separate memorandum to the committee providing an explanation of why we believe that the domestic industries' estimates of growth in consumption and import penetration levels are in error.

[The memorandum follows:]

TEXTILE & APPAREL GROUP OF THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS

EX IM

June 4, 1987

Honorable Samuel Gibbons
Chairman, Trade Subcommittee of the
House Ways & Means Committee
Room 1136, Longworth House Office Bldg.
Washington, D.C. 20515

Dear Mr. Chairman:

In response to your request for information on methods of measuring market growth and import penetration, I enclose a memorandum from International Business and Economic Research Corporation, which has assisted the Textile & Apparel Group of the American Association of Exporters and Importers in its analysis of the health of the domestic textile and apparel industries.

Sincerely,

Julia K Hughes

Julia K. Hughes
Washington Trade Representative
Associated Merchandising Corporation
Co-chairperson,
Textile and Apparel Group
American Association of Exporters & Importers
(AAEI-TAG)

cc: Janet Nuzum
Trade Subcommittee Staff

11 WEST 42ND STREET, NEW YORK, N.Y. 10036 • (212) 944-2230

IBERC
INTERNATIONAL BUSINESS AND ECONOMIC RESEARCH CORPORATION
2121 K STREET, N.W.
WASHINGTON, D.C. 20037
(202) 955-6155

MEMORANDUM

Re: Comparison of Methods of Measuring Textile Market Growth and Import Penetration

To assist the Committee in its analysis of the different and sometimes contradictory data that has been presented, we are setting forth our views on the strengths and weaknesses of each type of data. We feel that two types, dollar value and weight, provide the most accurate measures because they are readily verifiable and require the least number of conversions. Both measures show that textile and apparel market growth exceeds the industries' calculation of 1 percent per year and that import penetration is considerably lower than that stated by the domestic industries.

Market Growth

The domestic textile and apparel industries argue that import growth should be limited to the "long run" growth of the domestic market. However, long run trends have little impact on the business decisions of most participants in the market. Increases in domestic textile and apparel consumption are sharp and sometimes sudden; decreases can be equally sharp and sudden. Both domestic and imported textile supply must be able to respond quickly to these changes. For this reason, long-run trends are meaningless to importers, retailers and consumers; their time frames rarely extend beyond one year. To the extent that they are willing to respond to sudden changes in demand, long-run market growth also has little meaning to domestic textile and apparel producers. Restriction of any component of supply, be it domestic or imported, to a long-run trend in demand would prove artificial and commercially disruptive.

Measures of growth in the domestic textile and apparel markets are typically calculated from data in pounds or in square yard equivalents (SYEs). The primary source of data in pounds is the Textile Economics Bureau, Inc., which publishes the monthly Textile Organon. The Bureau is the statistical arm of the Man-Made Fiber Producers Association. It reports data in pounds because that is the way fiber consumption is measured. The U.S. Department of Agriculture data for the textile and apparel market in the aggregate in pounds forms the basis for Textile Organon data. The two sources are shown in Table 1 and Table 1a for cotton, wool and manmade fibers.

Since textile and apparel consumption is irregularly cyclical, the measure of market growth will vary with the time period selected. According to the data shown in Table 1, annual average textile and apparel market growth over a variety of periods exceeded 1 percent a year:

1970-86	3.1%
1973-86	1.9
1975-86	3.7
1980-86	5.4
1982-86	10.2

Ideally, a growth period should cover a complete cycle of textile and apparel demand -- i.e., a period of expansion and a period of contraction. An equal number of increases and decreases in demand should be included. Beyond that requirement, the choice of years is arbitrary. We do not know yet whether 1986 is the peak of the current expansion phase, or whether demand will continue to grow further, requiring the inclusion of data for 1987 and any subsequent years in these periods. If 1986 is not the peak, each of these growth rates shown above could be expected to increase.

The consumption data from Table 1 and the various growth rates are plotted in the attached chart. It shows how widely textile and apparel consumption can swing within short periods over a longer time frame. While overall average annual growth between 1973 and 1986 was 1.9 percent, between 1973 and 1975 demand declined at an average annual rate of 8 percent, followed by growth between 1976 and 1978 of 6.0 percent a year, in turn followed by a decline from 1979-1982 of 4 percent a year, and since 1982, average annual growth of 10.2 percent a year. Clearly, limiting imports to some artificial long-run growth rate would not permit supply to respond flexibly to demand.

The chart and Table 1 also show that measured absolutely rather than by percentage, during the period of strongest import growth, 1982-86, while imports increased by 2.1 billion pounds, domestic production increased by 2.7 billion pounds.

If demand grew in excess of 1 percent a year, as the data indicate has been the case for the most recent periods -- since 1980

(5.4 percent) or since 1982 (10.2 percent) -- artificially limiting imports to only 1 percent growth effectively reserves the balance of demand for the domestic industry which is not capable of supplying that demand at competitive prices and in a timely fashion. The result for consumers of artificially restraining imports to 1 percent growth would be higher prices and product shortages. The costs of market disruption, higher prices and product shortages during periods of rapid market growth would greatly exceed any benefits to domestic producers of guaranteed sales during periods of market contraction.

It appears that the domestic industry derived its estimate of 1 percent annual growth of the market by performing trend-line analysis of data based in pounds from 1973-1985. However, a trend line fitted to consumption data covering different periods, including the most current data available, yields different results. A trend-line fitted to data from 1970-86 shows market growth to be 1.5 percent; from 1973-86, 1.6 percent; from 1982-86, 8.4 percent. As already noted, long-run growth rates such as these do not reflect the dynamics of textile and apparel demand and therefore are not useful to businessmen, be they domestic producers or American importers or retailers, in making decisions related to supplying the market.

An alternative quantity measure of domestic textile and apparel market growth is in terms of square yard equivalents (SYEs). Because a substantial amount of manipulation is required to derive consumption data in square yard equivalents, calculating growth rates on the basis of SYEs is difficult. Such manipulation can lead to bias in the final growth rate estimated (too high, too low) depending upon the analyst's underlying assumptions about the products and the accuracy of the conversion factors -- assumptions that may not be universally agreed upon. Therefore, we believe data measured in pounds tend to be preferable to that measured in SYEs because they require the least number of conversions. Domestic fiber consumption data are simply the pounds of cotton, wool and man-made fibers purchased by the U.S. industry for their consumption.

Tables A-2, A-3 and A-4 of the Subcommittee's Statistical Information package provide Department of Commerce estimates of the apparel and nonapparel markets in SYEs (Commerce calls apparel plus nonapparel "total textile market"). To develop these data, Commerce analysts began with an industry publication, "Cotton Counts Its Customers" (CCIC). Based largely on a methodology developed by the American Textile Manufacturers Institute (ATMI), data in pounds and dozens were converted to SYEs.

According to the data provided in Table A-2, total textile (apparel and non-apparel) market growth rates based on SYEs are:

1976-86[1]	1.9%
1980-86	3.4
1982-86	5.4

Again, using SYE data developed by the Department of Commerce, market growth continues to exceed the domestic industries' estimate of 1 percent a year. The criticisms expressed earlier of using long-run growth rates based on pounds to describe consumption trends apply

---

1. Data for earlier periods were not available from the Department of Commerce.

equally to long-run growth rates derived from square yard equivalent data.

Import Penetration

Import penetration of the U.S. textile and apparel markets can be calculated from value or quantity (pounds or SYEs) data.

The U.S. Department of Commerce publishes the components of textile and apparel consumption (shipments, imports and exports) in current dollars in its annual Industrial Outlooks. Value data are easily collected and aggregated (conversions from pounds or dozens to SYEs of course are unnecessary). The Commerce Department's value data are reproduced in Table A-1 of the Subcommittee's "Attached Statistical Information" (updated by ITC). That Table shows 1986 apparel import penetration at 25.4 percent, textile mill products import penetration at 7.2 percent, and total textile and apparel import penetration at 17.3 percent.[2]

On a volume basis, data from Textile Organon show import penetration of the textile (i.e., non-apparel) and apparel market overall was 25.6 percent in 1986 (see Table 1); and import penetration of the apparel market was 31.5 percent (see Table 2). Import penetration for non-apparel, however, is not as easily derived.

---

2. Import data in the Current Industrial Reports are "customs value" data -- i.e., they exclude the value of tariffs and c.i.f. charges. A more accurate calculation of import penetration based on value data should include these charges in the import figure. The effect would be to increase the import penetration ratios. For example, in 1986 the c.i.f. plus duty value of textile and apparel imports was $27,918 million, compared to $22,307 million shown in Table A-1, yielding an overall import penetration ratio of 21.7 percent instead of the 17.3 percent shown in Table A-1 (updated by ITC).

In terms of SYEs, the Commerce data show total apparel and nonapparel import penetration at 23.8 percent in 1986, apparel import penetration at 33.1 percent, and nonapparel (household and industrial) import penetration at 13.1 percent. These import penetration estimates are similar to those calculated from data based in pounds.

That import penetration based on SYEs for nonapparel is below 20 percent is confirmed by examining market penetration data for broadwoven fabrics, which accounted for at least half the value of 1985 textile mill shipments. Data for broadwoven fabrics are reported in SYEs, so the consumption ratios are not distorted by conversions. Table 3 shows import penetration ranged from 13-16 percent from 1984-86.

The domestic textile and apparel industries present import penetration ratios based on SYEs showing the 1986 total textile (apparel plus industrial and home furnishings) import share at 36 percent, the 1986 apparel import share of consumption at 52 percent, and the industrial and home furnishings share at 17 percent. ATMI's import penetration data are strikingly higher than those of the Commerce Department because the domestic industry views non-apparel import penetration to include not only imports of the product at issue (textiles, for example) but imports of finished products made from the product (such as apparel) on the grounds that imported apparel displaces domestically-produced apparel which would have been made with domestically-produced textiles. At the same time, the industry views apparel import penetration to include not only imports of finished apparel but also imports of textiles and yarn used to make apparel. This inclusion of upstream and downstream imported products in the import penetration ratio is disingenuous, is double counting, and inflates the import penetration ratios. Consequently, ATMI's import penetration ratios are not supported or confirmed by either the Department of Commerce or any other accepted analysis of data whether measured in dollars, pounds or square yards. Their argument is analogous to saying that the correct way to measure import penetration in the steel industry is to add to raw and finished steel imports tonnages all inputs (iron ore, for example) as well as tonnages of all finished products made from steel (cars and machinery, for example). Such a procedure is completely at odds with the traditional methodology used to measure import penetration of a given product or group of products.

Table 1

U.S. Mill Consumption of Cotton, Wool and Manmade Fiber and Domestic Consumption of Fiber and Products, 1970-86
(million pounds & percent)

	Mill Consumption of Fibers	Imports	Exports	Apparent Consumption	Ratio of Imports to Consumption
1970	9,145	878	351	9,670	9.1%
1971	10,249	1,010	383	10,874	9.3
1972	11,095	1,154	497	11,749	9.8
1973	11,817	1,090	644	12,260	8.9
1974	10,492	927	806	10,611	8.7
1975	10,085	950	695	10,339	9.2
1976	10,913	1,255	779	11,385	11.0
1977	11,402	1,286	749	11,937	10.8
1978	11,525	1,580	809	12,294	12.9
1979	11,726	1,352	1,089	11,987	11.3
1980	11,088	1,437	1,318	11,206	12.8
1981	10,607	1,694	1,017	11,282	15.0
1982	9,264	1,695	703	10,254	16.5
1983	10,955	2,336	699	12,589	18.6
1984	10,624	2,996	708	12,908	23.2
1985	10,969	3,225	690	13,501	23.9
1986	11,916	3,821	791	14,946	25.6

Source: Textile Organon, March 1987, Table 13.

Table 1a

Cotton, wool, and manmade fibers consumed in textiles: U.S. mill consumption, exports, imports, and apparent consumption, 1976-86

Year	Mill consumption				Exports				Imports				Apparent consumption				Ratio of imports to consumption (total)
	Cotton	Wool	Manmade fiber 1/	Total	Cotton	Wool	Manmade fiber	Total	Cotton	Wool	Manmade fiber	Total	Cotton	Wool	Manmade fiber	Total	
	Million pounds																Percent
1976..........	3,414	122	8,052	11,588	413	15	352	780	709	99	479	1,287	3,710	206	8,179	12,095	10.6
1977..........	3,170	108	8,889	12,167	369	13	367	749	669	117	531	1,317	3,470	212	9,053	12,735	10.3
1978..........	3,041	115	9,235	12,391	356	12	442	810	845	129	643	1,617	3,530	232	9,436	13,198	12.3
1979..........	3,077	111	9,585	12,773	478	16	597	1,091	746	110	525	1,381	3,345	205	9,513	13,063	10.6
1980..........	3,033	123	8,734	11,890	523	24	541	1,088	811	103	772	1,686	3,321	202	8,965	12,488	13.5
1981..........	2,716	138	8,694	11,548	367	12	639	1,018	962	114	638	1,714	3,311	240	8,693	12,244	14.0
1982..........	2,488	116	1/ 6,775	9,379	253	12	439	704	897	112	698	1,707	3,132	216	7,034	10,382	16.4
1983..........	2,808	141	1/ 8,184	11,133	220	12	461	693	1,121	150	889	2,160	3,709	279	8,612	12,600	17.1
1984..........	2,716	142	1/ 7,966	10,824	206	12	488	706	1,447	210	1,115	2,772	3,957	340	8,593	12,890	21.5
1985..........	2,813	117	1/ 8,201	11,131	213	18	449	680	1,604	265	1,334	3,203	4,204	364	9,086	13,654	23.4
1986 2/......	3,256	145	1/ 8,669	12,070	248	22	509	779	1,919	276	1,566	3,761	4,927	399	9,726	15,052	25.0

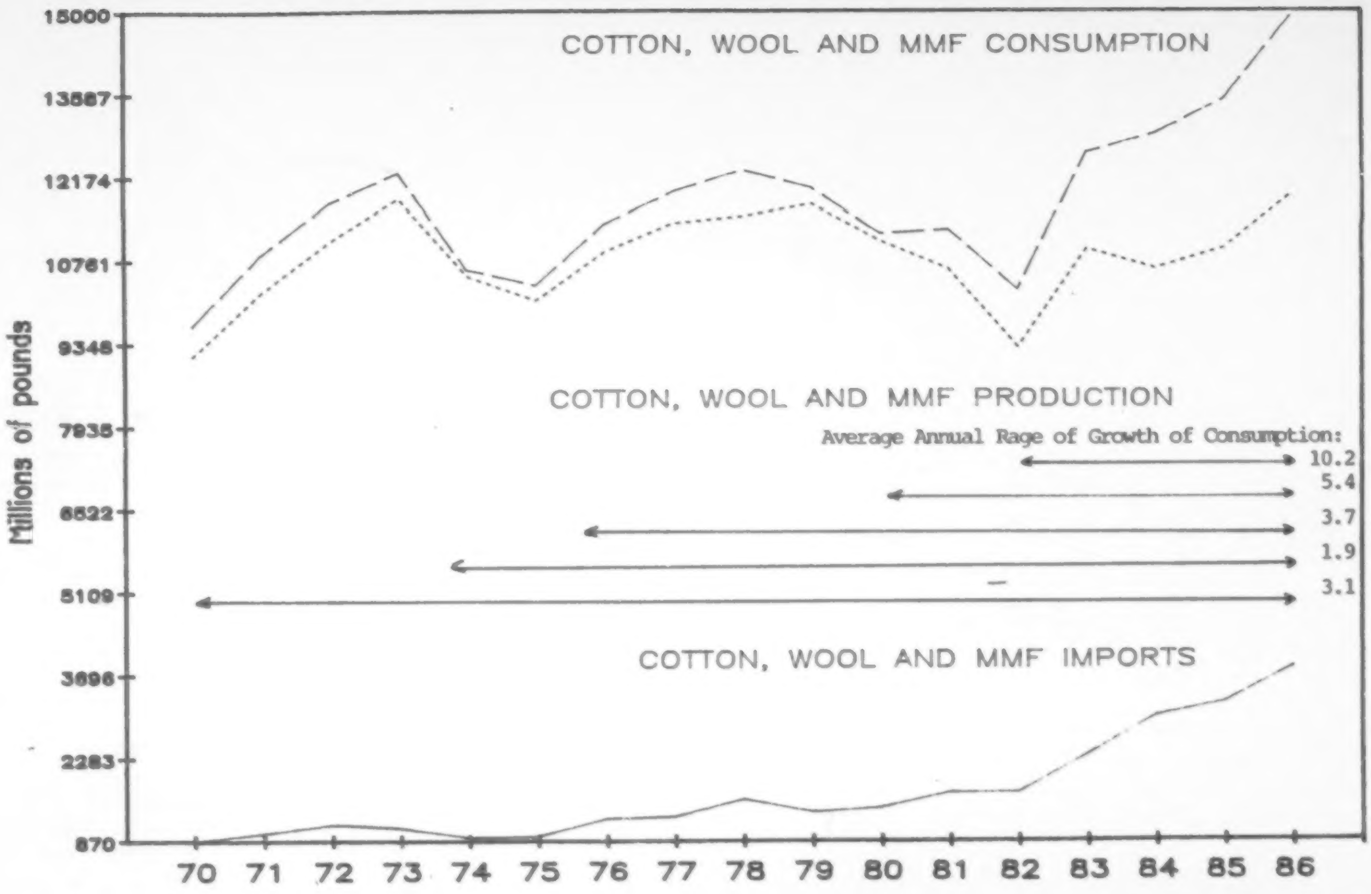
1/ Beginning in 1982, consumption of non-textile glass fiber (such as that used in insulation and other building materials) is not included.
2/ Export and import data for 1986 were estimated by the U.S. Department of Agriculture.

Source: Compiled from official statistics of the U.S. Department of Agriculture.

Note.--Because of rounding, figures may not add to the totals shown.

Provided by the U.S. International Trade Commission (Textiles Division) at the request of the Subcommittee on Trade.

TEXTILE AND APPAREL MARKET



SOURCE: Textile Economics Bureau, Inc.

Table 2

The U.S. Cotton, Wool and Manmade
Fiber Apparel Market, Raw Fiber Basis, 1973-86*
(million pounds and percent)

	Imports of Yarn and Fabric for Apparel[3]	Fabric from U.S. Mills	Finished Apparel Imports	Finished Apparel Exports	Apparent Consumption	Ratio of Imports to Consumption
1973	605	4,857	477	227	5,712	8.4%
1974	460	4,434	444	298	5,040	8.8
1975	391	4,459	536	271	5,115	10.5
1976	510	4,523	670	292	5,411	12.4
1977	457	4,872	758	308	5,786	13.1
1978	535	4,713	901	338	5,811	15.5
1979	365	4,773	825	468	5,495	15.0
1980	369	4,711	885	665	5,300	16.7
1981	599	4,216	982	567	5,230	18.8
1982	529	3,757	1,044	373	4,964	21.0
1983	716	4,034	1,258	330	5,678	22.2
1984	972	3,523	1,530	341	5,684	26.9
1985	976	3,473	1,830	334	5,945	30.8
1986	1,097	3,799	2,078	382	6,592	31.5

Source: Textile Organon, Table 2, April 1987; February 1984.

*Data not available for years prior to 1973.

---

[3] There may be some overlap (i.e., double counting) between these two columns if fabric from U.S. mills includes fabric made from imported yarns. However, we do not believe the overlap, if any, is significant enough to bias the apparent consumption data to any serious degree.

Table 3

Broadwoven Fabrics Market
Cotton, Wool, Man-made Fibers and Silk
(million square yards and percent)

Year	Production	Imports	Exports	U.S. Consumption	Ratio of Imports to Consumption
1984	16,013	2,316	365	17,965	13%
1985	14,854	2,277	374	16,757	14
1986	14,846	2,777	415	17,616	16

Source: U.S. Department of Commerce; U.S. Exports, Schedule E, Commodity by Country, FT 410 Dec. 1986, Dec. 1985, and U.S. Exports, EM 546 Dec. 1984; U.S. Department of Commerce, Major Shippers Report, Dec. 1986, Dec. 1985; U.S. Department of Commerce, Current Industrial Reports, MQ22T, Summary for 1986, 1985 and 1984.

Ms. HUGHES. H.R. 1154 is one of the most highly protectionist pieces of legislation ever introduced. It would destroy the MFA and existing bilateral agreements, would violate the GATT, provoke serious retaliation by rolling back imports of previously unrestrained suppliers such as the European Community and Canada, destroy any hope for success in the Uruguay round, and in the process, would raise consumer costs and cause a loss of 52,000 jobs in the retail sector alone.

While fashion and value often require us to purchase from foreign rather than domestic suppliers, recently more retailers have been increasing their purchases from domestic suppliers. Speaking solely on behalf of AMC, we have substantially increased our domestic purchases. In 1986, the increase was 44 percent and we project for 1987 a second increase of 50 percent.

This trend is important and we will continue to buy domestically whenever it is commercially feasible. However, we believe that imports will always serve an important function in the domestic industries. Imports provide variety, value, and competition. These factors continue to make the U.S. market the most dynamic in the world.

H.R. 1154 is a prime example of the egregious type of special interest sectoral legislation that is completely at odds with the congressional effort to enact omnibus trade legislation, which is intended to promote the international competitiveness of U.S. industries. AAEI-TAG urges subcommittee members to resist pressures for additional special protection in the form of unilateral textile and apparel quotas and instead, to continue your efforts in support of reasonable generic trade legislation.

[The statement of Ms. Hughes follows:]

STATEMENT OF
THE TEXTILE AND APPAREL GROUP OF
THE AMERICAN ASSOCIATION OF EXPORTERS
AND IMPORTERS (AAEI-TAG)

This statement is submitted on behalf of the Textile and Apparel Group of the American Association of Exporters and Importers (AAEI-TAG) in opposition to H.R. 1154, the Textile and Apparel Trade Act of 1987. AAEI-TAG is comprised of over 100 textile and apparel importers and retailers located throughout the United States. A list of AAEI-TAG members is attached.

Since the early 1960's, AAEI-TAG has testified on many occasions before this Subcommittee on the dangers of yielding to domestic textile and apparel industry pressure for greater import protection. The textile and apparel lobby's arguments in support of textile quota legislation have been the same for decades -- rising imports, inability to compete, loss of jobs and a doomed industry.

Last year, with production booming, prices and shortages increasing, the domestic textile and apparel industries used their same discredited arguments to urge members to override the President's veto of H.R. 1562. Even though the veto override failed, the domestic industries were successful in using the legislative threat to force the Administration to negotiate an expanded Multifiber Arrangement (MFA) and highly restrictive bilateral agreements.

Nonetheless, this year, despite record profits and serious shortages of fabric and labor, the domestic industries once again are back at the Congressional well with a new textile quota bill. They argue this new bill is moderate, complies with international rules and approximates the growth in demand in the U.S. market. The domestic industries also claim that imports have climbed to nearly 50 percent of domestic consumption. Nothing could be further from the truth.

In the following paragraphs we document the highly competitive and healthy state of the domestic textile and apparel industries, describe the high level of import protection currently in place, point out the enormous increase in consumer costs and decrease in retail employment H.R. 1154 would cause and explain the ways in which the bill would violate the MFA and the GATT. Finally, we outline the disastrous economic consequences that would flow from enactment of H.R. 1154.

I. THE TEXTILE AND APPAREL INDUSTRIES ARE CURRENTLY AMONG THE MOST HIGHLY PROTECTED INDUSTRIES IN THE U.S. AND ADDITIONAL PROTECTION IS UNWARRANTED.

The textile and apparel industries are currently the most highly protected industries in the United States. Additional import protection is totally unwarranted. These industries are not only protected by hundreds of quotas and high tariffs, they have the added benefit of highly complex and burdensome Customs enforcement policies and regulations.

A. Tariff Protection

Tariff rates on textiles and apparel average 18.3 percent, almost five times the rate of approximately 3.6 percent for all other dutiable products. Tariffs on many textile and apparel articles have also been exempted from significant tariff reductions in the most recent multilateral trade round. Moreover, unlike most other products, textiles and apparel are excluded from major tariff preference programs such as the Generalized System of Preferences and the Caribbean Basin Initiative.

B. Import Restraints

The United States is currently a party to 39 bilateral textile agreements and the Multifiber Arrangement. Pursuant to these agreements, the United States maintains nearly 1,400 quotas of various types which control the vast majority of U.S. textile and apparel imports. These include 117 new quotas established during the past year alone.

Moreover, because of the pressure generated by the Jenkins textile and apparel quota bill introduced in the last Congress, the Administration has significantly tightened the regulation of textile and apparel imports under U.S. bilateral agreements and the MFA. Of major importance was the negotiation in July 1986 of an extension to the MFA which broadened the MFA's coverage to include products of silk blends, linen, ramie, jute and other previously unregulated fibers. This closed what the U.S. industry claimed was a major "loophole" in the MFA's coverage.

At the same time, the Reagan Administration successfully renegotiated more restrictive bilateral agreements with Hong Kong, Korea, and Taiwan. Products of silk blends, linen, ramie and other fibers not previously subject to MFA coverage were brought within the coverage of these agreements for the first time. New restraints also were established which limit overall growth of trade under these agreements to less than 1 percent per year. An agreement to limit Japan to about 1 percent growth was also negotiated. New agreements with Pakistan, India and the Philippines were negotiated establishing aggregate limits on all textile and apparel imports from these important textile exporting countries. Comprehensive restraint agreements are also in effect with Brazil, Indonesia, Mexico, Singapore, and Thailand. The U.S.-China Textile Agreement expires at the end of 1987 and a broader and more restrictive new Agreement is expected to be negotiated as well.

As a result, the United States currently has group or aggregate restraints limiting textile and apparel trade with almost all the major and mid-level developing country suppliers of textiles to the United States. The United States also imposes restraints on important specific categories of textile and apparel trade from all developing country suppliers.

C. Customs Enforcement

In addition to existing import restraints, the Commerce Department and the U.S. Customs Service have imposed a byzantine set of enforcement policies and regulations which have the effect of further restricting imports. These regulations are being constantly revised and more tightly enforced. In fact as textile importers and retailers, we believe that under the current regime, Custom's enforcement policies in many instances have risen to the level of unwarranted harrassment.

The domestic industry's charges of lax enforcement of textile agreements are unsupportable. Although they are charged as imports, shipments in excess of established quota levels are consistently denied entry into the United States. During 1986 alone Customs enforced over 60 separate embargoes.

II. THE TEXTILE AND APPAREL INDUSTRIES ARE HEALTHY AND HIGHLY COMPETITIVE AND DO NOT REQUIRE ADDITIONAL PROTECTION

While enjoying an extraordinarily high level of import protection over the last 30 years the textile and apparel industries have become healthy and competitive. Additional import protection is not only unjustified in view of the healthy state of the domestic industry, it would in fact be harmful. The question we should be debating before the Congress is why industries as profitable as the domestic textile and apparel industries are not ready to phase out import protection.

A. The Textile and Apparel Industries Are Outperforming the Manufacturing Sector As a Whole

It is hard to believe that the textile and apparel industries are asking for greater import protection when they are outperforming the rest of the economy. The domestic industries cannot dismiss this fact as merely a cyclical phenomenon. According to ATMI's own statistics, the domestic industries have shown profits annually for each of the last 35 years.

The positive economic trends in both the textile and apparel industries are irrefutable:

- Between 1985 and the first quarter of 1987, textile production increased 20 percent, compared to 5 percent for manufacturing generally. (Federal Reserve Board). Over a longer period, 1982-1986, U.S. textile production increased by 27 percent and apparel production increased by 19 percent (See Table A-14, Subcommittee's Data Appendix). In fact, the Federal Reserve indexes of textile and apparel production in 1986 were at the highest levels since 1972. (Charts 1 and 2).

- Textile and apparel productivity also exceeded productivity for manufacturing as a whole. ATMI reports textile productivity increased at an average of 5.6 percent annually from 1975-85, and apparel, 2.7 percent compared to 2.4 percent for manufacturing as a whole.

- Capacity utilization in the textile industry has been increasing steadily from 78 percent in the first quarter of 1985 to 93 percent in the last quarter of 1986 (Federal Reserve Board). Apparel capacity utilization remained strong at 87 percent in 1985 and 88 percent in 1986, climbing still further to 90 percent in the first quarter of 1987 (Federal Reserve Board). For manufacturing as a whole, capacity utilization reached only 80 percent in both 1985 and 1986 (Table 1).

- The increase in capacity utilization is not the result of reduced capacity. The Federal Reserve reports that capacity has increased steadily since 1972 and reached an all-time high during 1986 and 1987. The textile index stood at 127 in 1986, 20 points higher than the 1972 level (Charts 3 and 4).

- The value of domestic textile mill shipments increased 3.5 percent from 1985-86 (Department of Commerce, Table A-1 of the Subcommittee's Data Appendix). Over the same period, the value of textile exports jumped 13 percent and apparel exports 19 percent (Department of Commerce, Table A-1 of the Subcommittee's Data Appendix).

- Industry profits also have shown dramatic increases since 1985, and industry analysts expect the strong performance to continue throughout 1987 and into 1988. Textile industry profits in 1986 were 67 percent higher than in 1985, compared to a *decline* of 4 percent for all manufacturing (Department of Commerce, Table A-16 of the Subcommittee's Data Appendix). Profits as a percent of net sales almost doubled from 1985-86; profits as a percent of equity were 69 perent higher over the same period (*Ibid.*) ATMI's own information shows 1986 profitability at its highest level since 1964 (Chart accompanying Testimony of Robert G. Laidlaw on H.R. 1154 of May 7, 1987). Industry analysts expect a further 20 percent increase in profits for 1987 (Kurt Salmon Associates; Goldman Sachs, "Monthly").

The evidence of the health of the domestic industries is undeniable and the domestic textile and apparel industries know it.

B. Factors Contributing to Domestic Industries' Competitiveness

The highly competitive state of the domestic textile and apparel industries is due to a variety of factors including: the fact that the textile industry has restructured and increased productivity; the use of "quick response"; the drop in the value of the dollar and increased domestic demand; the drop in cotton prices; and recent changes in the tax laws.

According to Dewey L. Trogdon, President of the American Textile Manufacturers Institute, in a letter to the editor of the Washington Post on September 24 of last year:

> The United States is the unchallenged world leader in textile manufacturing productivity and efficiency. A study by Werner Associates, a New York management consultant, found that even the innovative Japanese were only 74 percent as productive as American manufacturers.... The bottom line is a capital productivity increase of 51 percent in the textile industry in five years...

Along with the increase in productivity, most major U.S. textile producers have recently gone through an unprecedented series of mergers, acquisitions, and divestitures that have left a more concentrated, profitable and efficient industry. (Appendix A lists selected 1985-87 mergers and acquisitions). Economies and efficiencies of scale have been enhanced through increased vertical and horizontal integration. Outmoded facilities have been phased out, competition within the industry has been reduced and major mills have focused more sharply on specific markets. We have also attached a table illustrating the way in which mergers have helped major mills increase their shares of the U.S. sheet market (Table 2).

The apparel sector has moved to improve its competitive position through the implementation of a program called "quick response," which consists of close collaboration between the retailer, U.S. apparel manufacturer, and textile supplier and are designed to lower costs and improve overall efficiency by providing faster deliveries and reducing inventories. "Quick Response" improves a domestic supplier's ability to meet a retailer's constantly changing needs. A recent OTA study noted that greater implementation of "Quick Response" technologies could reduce textile and apparel suppliers' and retailers' costs by $12.5 billion. (Office of Technology Assessment, The U.S. Textile and Apparel Industry: A Revolution in Progress, pp. 24 and 27).

The decline in the value of the dollar has increased U.S. textile and apparel exports and has prompted many retailers to turn to domestic rather than foreign textile and apparel suppliers. The drop in the dollar has made textile and apparel imports far less competitive, particularly with respect to Europe and Japan. (Women's Wear Daily, 4/6/87). Between April 1985 and April 1987, the dollar has declined 43 percent against the yen, 41 percent against the mark, 35 percent against currencies of G-10 countries, and 15 percent against the Taiwanese dollar (Federal Reserve). As a result, imports are becoming more expensive (Daily News Record, 10/20/86). Just recently both Korea and Taiwan announced a revaluation of their currency which will make their exports less competitive in the U.S. market.

In response to the weak dollar, many stores have been buying more domestically-manufactured merchandise than they did a year ago (Daily News Record, 3/6/87). A poll of manufacturers at the American Apparel Contractors Association in April found that many apparel contractors are currently operating their U.S. plants at capacity primarily because apparel manufacturers and retailers are bypassing Far East sourcing for domestic sourcing (Daily News Record, 4/21/87).

Another factor contributing to the increased competitiveness of U.S.-produced apparel has been the decline in U.S. cotton prices. On August 1, 1986, U.S. cotton prices dropped to about half their previous levels to match world prices as a result of a change in the system of Federal cotton price supports. Although cotton prices have recovered somewhat from their 1986 lows, U.S. mills are stepping up their use of the still less expensive cotton. In this regard Mr. Trogdon noted, "We can now compete in finished products here against foreign mill products. And we can also compete, say, in Europe as well" (Wall Street Journal, 6/7, 8/86).

Recent changes in the tax laws will further boost apparel industry profitability. Tax experts at the Brookings Institution and Value Line Analysts agree that the apparel industry's profits will increase as a result of the lower corporate tax rates in the new tax law as well as the expected increase in consumer spending as a result of the new lower personal tax rates (Daily News Record, 3/30/87; Women's Wear Daily, 4/9/87; Daily News Record, 10/20/86).

C. Employment Trends are Healthy

There is no basis for the domestic textile and apparel industries' argument that rising imports are the primary cause of textile and apparel job losses. Employment has stabilized overall and in fact increased dramatically in the textile mill sector, particularly in the major textile-producing states. To the extent there has been a decline in employment, it has been due in large part to improvements in productivity.

Textile employment (seasonally adjusted) increased by 5,000 from January to March 1987; the level of textile employment in March 1987 was 3.4 percent higher than in March 1986 (Bureau of Labor Statistics). This positive national employment picture extends to the key textile states. Between February 1986 and February 1987, textile employment in the 8 states accounting for three quarters of national textile employment increased by 13,700, or by 2.6 percent (Table 3).

Nationally, apparel employment has stablized at just over 1.1 million during the past two years (Bureau of Labor Statistics). Apparel employment in North Carolina increased by 1,000 in February 1987 compared to February 1986; apparel employment in South Carolina increased by 100 over the same period; California, +5,500; Kentucky, +1,000; and New Jersey, +2,200. (Bureau of Labor Statistics). In South Carolina, apparel employment opportunities rose even further when 14 apparel manufacturers announced plans to open new plants or expand existing plants in the state (Piedmont; Whitco; Kent, Inc.; Billie Kay's Uniforms; J&W Industries; Kingstree Knitwear; New Castle Knitwear Manufacturing Co.; Shannon Manufacturing Co.; Whispering Pines Sportswear; Bowman, Inc.; Stone Manufacturing Co.; JLM, Inc.; Craig Industries; and Hebron Textiles, Inc.) (Daily News Record, 12/31/86 and 4/14/87). In fact the employment picture in South Carolina is so strong that, some apparel producers in South Carolina are actually experiencing worker shortages. (Daily News Record, 11/25/86)

The major cause of the decline in employment that the domestic industries have experienced in recent years are due to new technology and automation which have resulted in strong productivity gains. According to the OTA study, between 1972 and 1984, 500,000 textile and apparel jobs were lost to automation and improvements in productivity alone (OTA, p.7).

Moreover, those textile and apparel workers that have lost jobs as a result of automation and productivity gains have not been confronted with a stagnant job market. In the key textile and apparel states, increases in employment in the manufacturing wholesale and retail trade and services sectors have far exceeded declines in textile and apparel employment (Table 4). In addition, according to a recent Department of Labor study, workers who moved out of textile and apparel jobs and took jobs in the wholesale and retail or other service sectors generally saw virtually no change in their standards of living (Office of Technology Assessment, Technology and Structural Unemployment: Reemploying Displaced Adults, Feb. 1986, p. 117).

D. Additional Import Protection Would Hurt Segments of the Domestic Textile and Apparel Industries

Not only are the unilateral global quotas imposed under H.R. 1154 unwarranted in light of the healthy state of the industries, the quotas will hurt U.S. apparel manufacturers because the U.S. textile mill industry cannot and will never be able to fully satisfy the needs of U.S. apparel producers. A large amount of domestic apparel is produced with imported yarns or fabric. The U.S. mills often require very large minimum orders from their customers, unsuitable for many apparel manufacturing needs, while foreign mills are often willing to fill smaller orders. In addition, certain popular fabrics, such as those made of lightweight polyester filament yarn, as well as worsteds, woolens and blends of man-made fiber and wool, are simply not produced by U.S. mills in the desired quality, diversity and finish.

The tight supply situation that exists in the U.S. market for fabric and yarn is well documented. Virtually all fabrics and most notably gray goods including printcloth, sheetings, and sateens, have been in short supply since last summer; substantial price increases and new investment to increase domestic production have been the result (Daily News Record, 9/26/86; 10/6/86). This pattern of shortages has continued into 1987, with many mills reporting sold out positions on basic apparel gray fabrics through December.

The proposed new textile bill would limit all fabric imports, including imports of the apparel fabrics and yarns that are simply not available in sufficient quantities in the U.S. Limiting U.S. apparel producers' access to needed foreign fabrics and yarn will weaken their competitive position and their overall strength. Limitations on yarn and fabric imports even could be harmful to those domestic mills that support the textile bill, but who at the same time are major importers of yarns and fabrics.

III. H.R. 1154 WOULD REDUCE THE FLEXIBILITY OF IMPORTERS AND RETAILERS TO MEET CHANGING CONSUMER DEMAND

H.R. 1154 would be extraordinarily disruptive to the U.S. textile and apparel market, imposing high costs on importers, retailers and consumers. Limiting import growth to 1 percent per year on a category-by-category basis would make it nearly impossible for retailers to respond to frequent changes in consumer demand. For most products, cyclical swings in U.S. consumer demand require far more flexibility in supply than a 1 percent growth limit would permit. For example, consumption of cotton sweaters increased at an average annual rate of 6.5 percent during 1980-85 with domestic production increasing faster than imports. Examples of only a few major product categories where annual consumption growth exceeded 1 percent during 1980-85 include woman's shirts and blouses (3.1 percent), trousers, slacks and shorts (3.6 percent), men's shirts (10.6 percent), men's and boys suit-type coats (4.2 percent).

Even within any one individual product category, year-to-year changes in demand require flexibility in supply from both domestic and foreign sources that exceeds 1 percent. For example, skirt consumption increased 36 percent between 1980 and 1981, but grew less than 1 percent between 1982 and 1983. Consumption of women's woven skirts and blouses increased 18 percent between 1982 and 1983, declined 5 percent between 1983 and 1984, and then increased again by 9 percent between 1984 and 1985. Wide swings in demand as seen in skirts and women's shirts are common in the textile and apparel markets but could not be accommodated under H.R. 1154. Categories which saw declining imports during 1986 would be particularly hard hit. These products would be unable to return to earlier import levels when consumer demand increases for these products.

IV. H.R. 1154 WOULD INCREASE CONSUMER COSTS SUBSTANTIALLY AND CAUSE A LOSS OF 52,000 RETAIL JOBS

International Business and Economic Research Corporation (IBERC) has estimated that H.R. 1154 would cost textile, apparel and footwear consumers $10 billion a year at retail--a 19 percent increase in the cost consumers already pay for tariff and MFA protection of the industries (IBERC). Low income consumers will be hardest hit by the resulting price increases, ranging from 2 to 10 percent, and the scarcity of less expensive apparel and footwear (IBERC).

H.R. 1154 will cause the loss of over 52,000 retail jobs as a result of reduced spending by consumers on textile and apparel products and footwear whose prices would be inflated by the legislation (IBERC). In fact, 5,700 more jobs will be lost in the retail sector than would be protected in the manufacturing sector (IBERC). H.R. 1154 would therefore strike directly at one of the strongest job-generating sectors of the U.S. economy -- the retailing industry.

But H.R. 1154 will not stop at the retail sector--it will also cause the loss across the country of thousands of other import-related jobs--importers, port services, customs brokers, freight forwarders, inland transportation, banks and insurance companies, all of which depend on imports to support their businesses. Because H.R. 1154 would effectively reduce U.S. exports either by retaliation from U.S. trading partners, or by reducing developing country growth and therefore demand for U.S. exports, jobs in these sectors would he placed at risk. It has been estimated that 350,000 jobs in the State of Washington are directly related to exporting and importing, and $6 billion in payrolls in the state depend on foreign trade. (Testimony of Mark Sobol of Generra Sportswear before the Subcommittee on Trade, House Committee on Ways and Means, July 15, 1985). The Port Authority of New York and New Jersey estimated that in 1984, 17,500 port and air cargo jobs were directly or indirectly related to imports of textiles and apparel alone. The reduction in projected growth in textile and apparel imports which H.R. 1154 effectively would require would result in the loss of at least 1,750 of these New York jobs in addition to the loss of 3,500 New York retail jobs. Similar losses would occur in other U.S. ports that rely heavily on textile, apparel and footwear trade.

V. H.R. 1154 WOULD DESTROY THE MFA, VIOLATE EXISTING BILATERAL TEXTILE AGREEMENTS, THE GATT AND THE U.S.-ISRAEL FTA AND UNDERMINE CHANCES FOR MEANINGFUL PROGRESS IN THE URUGUAY ROUND

By placing a permanent global quota based on 1986 import levels on a category-by-category basis on all textile and apparel imports, H.R. 1154 would force the United States to violate the MFA, U.S. bilateral textile agreements and the GATT, and would subject U.S. exports to the threat of massive retaliation.

A. The Bill Violates the MFA

Enactment of the bill would completely abrogate the MFA. The quantitative restrictions imposed under the bill violate Articles 1, 3 and 6 of the MFA as well as existing bilateral Agreements under Article 4. The MFA provides that safeguard measures are only to be applied to those products from those countries determined to be causing market disruption. The determination of market disruption must be based on the existence of serious damage as indicated by production, employment, productivity and investment of competing domestic manufacturers.

H.R. 1154 makes a blanket finding of serious injury for textile and textile products which does not meet the MFA requirements. This blanket finding is unsupportable because there are many important sectors of the domestic industry for which no plausible argument for domestic market disruption can be made. For example, the hosiery industry in 1986 had its best year ever, with production increasing by 5 percent to 319 million dozen pair. This industry has only a 4 percent import penetration ratio. The industry's 16 million dozen increase in domestic production in 1986 exceeded the total amount imported in that year. Similarly, other finished product sectors with very low import penetration ratios are carpeting (1.2 percent), and towels, sheets, pillowcases (2 percent). Moreover, important fabrics such as denim and woolen fabrics as well as printcloth are operating at such high levels of capacity as to defy any claim of import injury. Similarly cotton sweater producers, who increased their production by over 1000 percent between 1980 and 1985 and who further increased production in 1986 cannot reasonably claim injury.

The bill fundamentally violates the MFA by imposing quotas unilaterally without prior consultations, which lie at the heart of the MFA system. The bill is also inconsistent with the MFA requirement that more favorable treatment be given to textile and apparel imports from developing countries, particularly traditional cotton and wool textile producing countries. Moreover, MFA requirements allowing for growth and flexibility would be dead letters. Provisions for review by the Textile Surveillance Committee would be inoperative.

In short, the entire MFA and the 1986 Protocol of Extension would be abrogated and nullified by enactment of the H.R. 1154.

B. It Will Be Impossible to Implement H.R. 1154 Without Violating Bilateral Agreements.

H.R. 1154 contains no guidelines for implementation. In accordance with the MFA, many bilateral textile agreements currently in effect authorize growth above 1 percent in restrained categories. Additionally, certain products from particular countries are not subject to restraints. Therefore, to comply with the category quota limits imposed under the bill of no more than 1 percent global growth, the President would immediately be forced to: (1) honor existing bilateral agreements and roll back the trade of other suppliers, such as the EC, Canada, Israel and uncontrolled developing country suppliers; (2) violate the existing bilateral agreements; or (3) both violate existing agreements and roll back uncontrolled suppliers in violation of their MFA and GATT rights. The Commerce Department's testimony states that violation of the bilateral agreements would be nearly impossible to avoid under the bill.

C. The Bill Violates the GATT

H.R. 1154 justifies the imposition of permanent textile and apparel quotas on the basis of a self-serving declaration that serious injury exists within the meaning of Article XIX of the GATT, the escape clause provision. Article XIX authorizes the suspension of tariff concessions, but only to the extent that and for such time as may be necessary to remedy the injury. Furthermore, the contracting party imposing the escape clause measure is required to compensate affected contracting parties for trade losses suffered. If no agreement on compensation is reached, the affected contracting parties have the right to retaliate.

H.R. 1154 is completely inconsistent with Article XIX for several reasons. First, it is premised on a sham declaration that serious injury to the domestic textile and apparel industries exists without any specific finding that imports in each of the categories subject to restraint are causing injury. The finding of overall injury contained in the bill is contradicted by increases in textile and apparel industry profits, capacity utilization, and employment. The declaration of serious injury in H.R. 1154 makes a mockery of the escape clause provisions of the GATT as it establishes a precedent under which any contracting party would be free to impose trade restrictions based on nothing more than a simple declaration that such injury exists.

Second, the bill does not conform to the GATT's requirement that import relief be temporary and at the level necessary to remedy injury. H.R. 1154 establishes permanent quotas on textiles and apparel which will only be reviewed at the end of a 10-year period with no requirement that they be modified or terminated in response to improvements in conditions in the domestic industry.

Third, the bill limits the President's authority to compensate the suppliers affected by the new quotas by providing authority to reduce textile and apparel tariffs to no less than 90 percent of the current MFN *ad valorem* rates and to phase the reduction in over a 5-year period. This means that the President could not reduce the 1986 trade-weighted average tariff for textile and textile products, which was 18.2 percent *ad valorem* in 1986, to less than 16.4 percent, and that the 1.8 percent reduction would have to be phased in over a 5-year period. This negligible level of compensation is essentially a smoke screen, authorized to provide a gloss of legitimacy on quotas which are contrary to U.S. international obligations.

D. The Compensation Authority Under the Bill Will Not Reduce the Threat of Retaliation

Approximately $29 billion in U.S. exports will be at risk of retaliation if H.R. 1154 is enacted. As already indicated, the tariff compensation authority given the President is extremely narrow. The EC, Canada and developing countries which are not subject to restraint currently could be subject to import rollbacks under the bill and other developing countries would be subject to greater restrictions than at present. Thus U.S. exports to these countries would be at an immediate risk of retaliation. Representatives of the EC already have informed the U.S. that they intend to take retaliatory measures if H.R. 1154 is enacted.

F. Adoption of H.R. 1154 Will Hurt U.S. Prospects For Greater Trade Liberalization at The Uruguay Round and Other Bilateral Trade Negotiations and Agreements

The enactment of H.R. 1154 would violate the United States' commitment under the Punta del Este Ministerial Declaration to refrain from imposing unjustified, unilateral import restrictions. The enactment of the bill will damage U.S. credibility in negotiating further trade liberalization in the Uruguay Round. Additionally, the removal of the President's authority to reduce textile tariffs in the Uruguay Round or any other tariff negotiation below that contemplated under the bill removes an important source of bargaining leverage.

The prohibition on tariff cuts on textiles will also hinder the ability of the U.S. to successfully complete the negotiation of the U.S.-Canada bilateral free trade agreement (FTA), which contemplates a complete elimination of duties on all trade between the two countries to be phased in over a period of years. The provision against tariff reductions on textiles in the bill means that the President would be denied the authority to include textiles within the terms of the FTA.

The bill would also violate the terms of the U.S.-Israel Free Trade Agreement which prohibits the unilateral imposition of quotas.

IV. CONCLUSIONS

For the foregoing reasons AAEI-TAG urges Trade Subcommittee members to oppose H.R. 1154.

Chairman GIBBONS. The next witness is Joan Padduck.

STATEMENT OF JOAN M. PADDUCK, CHAIRPERSON, FOOTWEAR GROUP, AMERICAN ASSOCIATION OF EXPORTERS & IMPORTERS, AND IMPORT MANAGER, REEBOK INTERNATIONAL, LTD.

Ms. PADDUCK. Good afternoon, Mr. Chairman. I am Joan M. Padduck, chairperson of the American Association of Exporters & Importers Footwear Group and Import Manager of Reebox International, Ltd. I am here today to address H.R. 1154, the Textile and Apparel Act of 1987.

The American Association of Exporters & Importers Footwear Group is an integral part of the AAEI. The American Association of Exporters & Importers, as a whole, consists of approximately 1,100 U.S. company members, involved in every facet of international trade. The AAEI Footwear Group consists of over 60 footwear importers, including a few retailers which import. The group's primary focus is on imported footwear, although some of the group members also export footwear to foreign markets.

AAEI's Footwear Group opposes H.R. 1154. The bill's inconsistencies with U.S. international obligations and excessive costs to the U.S. economy argue strongly against its passage. The ability to respond to changes in the market is a key element of a competitive manufacturer, foreign or domestic. The streamlining in response to natural competition, has resulted in a highly profitable and productive U.S. footwear industry. Permanent quotas on nonrubber footwear at 1986 levels, as proposed by H.R. 1154, would not only excessively burden U.S. consumers, it would deny the U.S. footwear industry the flexibility to compete in the world market.

The Footwear Group believes the argument against passage of H.R. 1154 can be framed in terms of cost—the cost internationally and the cost to the U.S. economy. Regardless of whether the quota is global or country specific, enactment of the bill would invite retaliation by U.S. trading partners. The United States can ill afford to pass protectionist, sector specific legislation at the initiation of a new round of multilateral trade negotiations. Producers of high quality footwear will be subject to quotas needlessly, as will the producers of low priced footwear. Protection of athletic footwear is particularly burdensome and needless. There is virtually no U.S. manufacturing capacity for athletic footwear. Approximately 99 percent of such footwear is imported today.

Enactment of H.R. 1154 also would result in excessive costs to U.S. consumers and businesses, in addition to its negative international implications. It has been estimated that passage of H.R. 1154 would cost U.S. consumers over $2 billion a year over a period of 10 years, at a cost per footwear industry job saved of over $140,000. As has been consistently shown in the past, with the VRAs on automobiles a prime example, quotas raise the price of both domestic and imported goods. Higher prices especially for low end of budget footwear, will hurt the poorer U.S. consumers and those on fixed incomes the most.

The cost, domestically and internationally, of global quotas on U.S. footwear imports far outweighs whatever benefits the bill may bestow. Protection of a profitable, productive and streamlined footwear industry makes neither economic or political sense. Importers also provide jobs. Many companies maintain research and development activities in the United States. AAEI's Footwear Group urges that this committee oppose passage of H.R. 1154, in the national interest.

Thank you very much.

[The statement of Ms. Padduck follows:]

STATEMENT OF JOAN M. PADDUCK, CHAIRPERSON, AMERICAN ASSOCIATION OF EXPORTERS & IMPORTERS FOOTWEAR GROUP

Good Morning, Mr. Chairman, members of the Committee. I am Joan M. Padduck, Chairperson of the American Association of Exporters and Importers' (AAEI) Footwear Group and Import Manager, Reebok International, Ltd. I am here today to address H.R. 1154, The Textile and Apparel Act of 1987 which in addition to placing quotas on textiles and apparel, places permanent quotas on footwear imports.

The AAEI Footwear Group is an integral part of the American Association of Exporters and Importers. AAEI, as a whole, consists of approximately 1100 U.S. company members involved in every facet of international trade. The AAEI Footwear Group consists of over 60 footwear importers, including a few retailers which import. The Group's primary focus is on imported footwear although some of the Group members also export footwear to foreign markets.

AAEI's Footwear Group opposes H.R. 1154. The bill's inconsistencies with U.S. international obligations and excessive costs to the U.S. economy argue strongly against its passage.

The U.S. footwear market is varied and the footwear consumer is discriminating. The price, quality and fashion sense of foreign footwear has long appealed to U.S. consumers. Foreign manufacturers are quick to recognize changes in fashion, and are responsive to changes in U.S. style and tastes. The ability to respond to changes in the market is a key element of a competitive manufacturer, foreign or domestic.

The streamlining in response to natural competition has resulted in a highly profitable and productive U.S. footwear industry. AAEI's Footwear Group sympathizes with and recognizes the plight of the domestic footwear workers. They are often caught in the middle when a U.S. company decides to maximize its profits. The past decade has seen the domestic footwear industry make itself lean in response to international competition. That a streamlined U.S. industry should result in increased imports should come as no surprise. In its preparation and research for the 1985 International Trade Commission (ITC) section 201 investigation, AAEI's Footwear Group discovered that the domestic footwear industry accounts for close to 50% of all imports into the U.S. These U.S. companies made rational business decisions to source their goods competitively, and chose foreign sources at lower prices maintaining or increasing quality. Permanent quotas on non-rubber footwear at 1986 levels as proposed by H.R. 1154, would not only excessively burden U.S. consumers, it would deny the U.S. footwear industry the flexibility to compete in the world makert.

The Footwear Group believes the argument against passage of H.R. 1154 can be framed in terms of cost -- the cost internationally and the cost to the U.S. economy.

The textile and apparel portion of H.R. 1154 undoubtedly violates the MFA and the present bilaterals the U.S. has with the textile and apparel producing countries. Some of the U.S. trading partners already have threatened to retaliate. The international legality of footwear quotas may be less clearcut, but are nonetheless as dangerous. Permanent growth quotas on footwear would be inconsisent with GATT Articles XI and XIX, despite Congress' "determination" to the contrary. Article XI provides that "no prohibitions or restrictions other than taxes, or other duties, charges, whether made effective through quotas, import or export licenses or other measures shall be instituted or maintained by any contracting party....". Article XIX, known as the "escape clause" is entitled Emergency Action on Imports of Particular Products", and allows a country to provide temporary relief for an industry facing increased imports as a result of unforseen developments and the effect of GATT obligations. The U.S. Congress has incorporated this GATT "escape clause" into U.S. trade law, initially as §6B of The Trade Agreements Extension Act of 1951. Its current form is found in §201 of the Trade Act of 1974 (19 U.S.C. §2251 et seq.). The entire footwear industry, including domestic producers and U.S. importers, is well acquainted with §201, having been through five such investigations in the past seventeen years. Proponents of the footwear quota portion of H.R. 1154 cite the §201 footwear investigation of 1985 and ultimate denial of relief as proof that the U.S. trade laws do not work and that unilateral action is necessary to provide relief for the U.S. footwear industry.

To the contrary, the AAEI Footwear Group believes that the 1985 investigation and the President's determination of "no relief" are proof that the U.S. trade laws function as intended. The President, as proscribed by statute, found that the cost of providing relief from increased footwear imports was too high for U.S. consumers and business to bear and thus, not within the "national economic interest". The cost to the international standing of the U.S. should this bill be passed also would not be in the nation's economic interest.

H.R. 1154 attempts to be non-discriminatory in that a global quota on non-rubber footwear would be established. Regardless of whether the quota is global or country-specific, enactment of the bill would invite retaliation by U.S. trading parters. Italian, French and Spanish producers of high quality footwear will be subject to quotas needlessly, as will the producers of low-priced footwear. There is little or no domestic competition in these areas. The domestic industry has little to gain except reprisal against U.S. exports should H.R. 1154 be made law. The tariff compensation provided in section 5 of the bill with all its qualifications, will do nothing to offset the harm to the international trading system and the harm to the U.S. ability to negotiate in the Uruguay Round. The U.S. can ill-afford to pass protectionist, sector-specific legislation at the initiation of a new round of multilateral trade negotiations.

Protection of athletic footwear is particularly burdensome and needless. There is virtually no U.S. manufacturing capacity for athletic footwear. Approximately 99% of such footwear is imported today. Quotas would impose a higher cost to the consumer, would result in lower availability of desirable products and would not benefit an existing industry.

Enactment of H.R. 1154 also would result in excessive costs to U.S. consumers and businesses, in addition to its negative international implications. In 1977, President Carter upheld a section 201 investigation finding of increased footwear imports causing injury to the U.S. industry. Voluntary restraint agreements (VRA's) were negotiated with South Korea and Taiwan. These VRAs coupled with the fact that non-rubber footwear was not allowed duty reductions under the Tokyo Round or the advantage of duty-free treatment under the Generalized System of Preferences Program or the Caribbean Basin Initiative, cost the U.S. consumer $700,000,000, at a cost per job saved of $55,000 (Hufbauer, et al., TRADE PROTECTION IN THE UNITED STATES: 31 CASE STUDIES, at 15; Institute for International Economics, Wash. DC 1986). It has been estimated that passage of H.R. 1154 would cost U.S. consumers over $2 billion over a period of ten years, at a cost per footwear industry job saved of over $140,000. As has been consistently shown in the past, with the VRA's on automobiles a prime example, quotas (VRA's) raise the price of both domestic and imported goods. Higher prices especially for "low end" or budget footwear, will hurt the poorer U.S. consumers and those on fixed incomes the most.

The cost, domestically and internationally, of global quotas on U.S. footwear imports do not outweigh whatever benefits the bill may bestow. Protection of a profitable, productive, and streamlined footwear industry makes neither economic or political sense. Importers also provide jobs. Especially companies like Reebok, Puma, Nike, Converse and others whose Research and Development activities are largely in the U.S. The reduced stregth of the U.S. dollar has already benefitted the domestic footwear manufacturing industry. Is this really the time when footwear quotas are needed? AAEI's Footwear Group urges that this Committee oppose passage of H.R. 1154, in the national interest.

Chairman GIBBONS. Mr. Rowland.

STATEMENT OF TED ROWLAND, EXECUTIVE DIRECTOR, INTERNATIONAL FOOTWEAR ASSOCIATION

Thank you, Mr. Chairman and members of the subcommittee.

I am Ted Rowland, executive director of the International Footwear Association. IFA represents U.S. companies which import completed footwear. Our members are responsible for about 20 percent of all U.S. footwear imports. We oppose quotas.

There is nothing new about quotas. Quotas always increase prices in a variety of ways. The burden of these price increases falls heaviest on the least affluent U.S. consumers.

U.S. consumers presently enjoy the highest quality, lowest priced footwear in the world. Per capita consumption has increased, and until recently, prices declined steadily over a very long period of time. Now highly competitive, U.S. so-called domestic manufacturers use a combination of imported and domestically produced components and completed footwear to serve the market. These companies are, or are becoming world class competitors. The industry is still in flux, and will be for a long time. If Congress decides that Government must intervene, our association urges that it look to ways to strengthen the industry, rather than to protection, which has worked so rarely to help and so often to hurt both industry and consumers.

What will help the footwear industry and workers in the U.S. is research and development, increased investment, entrepreneurial risk taking, development of export capability and a properly functioning Adjustment Assistance Act.

Quotas do not solve the complex issues of trade. We have numerous laws to deal with unfair trade, and our association believes in fair and open trade. Quotas do not benefit workers, or do so only at enormous expense to other workers as consumers. Quotas hurt consumers, hurt the economies of our trading partners, hurt relations between us and other countries, and distort markets here and abroad.

Open, technologically advanced, creative and innovative competition will help everyone—consumers and industry alike. That is the goal we urge Congress to pursue.

Once again, thank you for this opportunity to testify.

[The statement of Mr. Rowland follows:]

STATEMENT OF TED ROWLAND, EXECUTIVE DIRECTOR, INTERNATIONAL FOOTWEAR ASSOCIATION

The International Footwear Association (IFA) appreciates this opportunity to express its views about quotas on imports of footwear into the United States as proposed in H.R. 1154.

IFA is an association of U.S. companies which import completed footwear. Its forty-six corporate members account for perhaps twenty percent of all footwear imports. We oppose quotas. We urge the Subcommittee to reject their imposition, which will harm U.S. consumers, the U.S. economy, our trading partners, as well as those domestic manufacturers who export and those who rely on imports to fill in their lines.

There is nothing new to say about quotas. Quotas invariably increase prices. They have the most severe impact on low-priced footwear, worn by the least affluent Americans. Quotas distort trade and market patterns, resulting most often in increased competition for those whom the restraints are intended to assist, but at higher price levels and with more sophisticated products. Quotas take on a cost of their own, and that cost must be added to the economic and social burden. To the extent the market will bear it, all economic costs are marked-up for profit by each participant. No one is in the shoe business to make or sell shoes—they are in the business to make money; if production is restrained by quotas prices must rise, either due to increased demand coupled with diminished supply or because the limited production is devoted to footwear with greater value added commanding higher prices. Foreign producers must take these steps just to stay even. A careful analysis of production in Korea and Taiwan before and after the most recent quotas were imposed will demonstrate this point.

It is arguable whether quotas save jobs. To the extent that they do, the costs are enormous. Every government and private study indicates that it would be far cheaper to pay money directly to workers displaced by foreign competition than to impose the economic and social burdens of quotas on society at large.

It is clear that quotas will not cause production to shift to this country to any appreciable degree if domestic industry chooses to increase profits without improving competitiveness. This has been the inevitable result of most such actions. The recent motorcycle case is the only exception.

Domestic manufacturers have adjusted to some degree to import competition and continue efforts to make themselves world-class competitors. These firms learned how to compete with imports and learned how to enhance their competitive position by using imported footwear and parts to complement their domestic production. Quotas will retard these developments.

Quotas do not solve the complex issues of trade. We have numerous laws to deal with unfair trade, and our Association believes in fair and open trade. Quotas do not benefit workers. Quotas hurt consumers, hurt the economies of our trading partners, hurt relations between us and other countries, and distort markets here and abroad.

What will help the footwear industry and workers in the U.S. is research and development, investment, entrepreneurial risk-taking and a properly functioning Adjustment Assistance Act. If Congress proposes legislation to help in these ways, IFA would give enthusiastic support.

Quotas did not help the footwear industry before, and will not now. Open, technologically advanced, creative and innovative competition will help everyone—consumers and industry alike.

If quotas don't work; if they hurt more than they help; if there is real opportunity to compete in the world's largest footwear market at incredibly high per-capita consumption and incredibly low prices; why turn to quotas?

History teaches us that quotas are not the answer. If government is to interfere in the market it should do so only to enhance the competitiveness of American firms and workers not to eliminate foreign competition.

Once again, the International Footwear Association appreciates this opportunity to testify on this very important matter.

STATEMENT OF RONALD J. MUELLER, PRESIDENT AND CHIEF OPERATING OFFICER, FLORSHEIM SHOE CO., ACCOMPANIED BY STEVE SONNENBERG, INTERNATIONAL TRADE COUNSEL

Mr. **Mueller**. Good day, Mr. Chairman and members of the subcommittee. My name is Ronald Mueller. I am the president and chief operating officer of the Florsheim Shoe Co., which is a division of Interco, Inc.

I am accompanied today by Steve Sonnenberg of Sonnenberg, Anderson & O'Donnell, our international trade counsel.

Florsheim opposes the footwear provisions of H.R. 1154.

Florsheim has been in the business of manufacturing and retailing fine men's dress shoes in the United States since 1892. I believe we continue to be the largest domestic manufacturer of men's quality leather dress shoes. We have in the past manufactured women's leather dress shoes in the United States, but ceased doing so in 1978. In July of 1985, we felt that demand warranted our return to production of women's footwear in the United States. At present, we wholesale and retail women's leather dress shoes, some of which are imported and some of which are manufactured domestically by ourselves and others. Our plans going forward call for increased domestic production.

Florsheim employees 3,000 workers in the United States in manufacturing operations and 1,700 in selling and retailing. The company owns and operates over 600 retail outlets throughout the United States, Canada, Mexico, and Australia. We are in the process of executing a plan for marketing Florsheim footwear through our Hong Kong company throughout the West Pacific Basin. We are drawing from our global resources, including U.S. factories to service these markets, some of which we have been servicing for 15 years.

Florsheim owns and operates manufacturing facilities in Missouri, Kentucky, Illinois, and in Canada and Australia. It is also worthy of note that we purchase raw materials, which is to say, leather and footwear components, on a world-wide basis. Such global purchasing is required to satisfy and maintain our quality standards as well as to provide us diversification of product.

I have personally been employed by the Florsheim Shoe Co. in one capacity or another since my graduation from high school in 1951. During that time, I have seen dramatic changes in the U.S. footwear industry.

When I began in shoe wholesaling, the major manufacturers such as Florsheim presented their lines to retailers who could buy them or not, as they chose. If a customer asked us, "How about this shoe with a tassel?", our response was generally: "How about this shoe as it is?" During the 1960s and 1970s, the dynamics of shoe retailing changed. Our customers became powerful and better able to influence what they were purchasing. Since they had access to a wider variety of resources, virtually on a global basis, we were forced to become more responsive to their needs which reflect the wishes of the American consumer. In the past, consumers bought what we as manufacturers made. Today, we as manufacturers make what consumers want.

The effect of this change of affairs has been twofold:

One, overall consumption of footwear in the United States skyrocketed.

Two, consumers have been provided with the products which they wished to buy.

We at Florsheim regard this increase in demand as providing additional marketing opportunities for both our retailing and manufacturing divisions, provided we are able to respond in a timely and cost-effective manner to the demands of the consuming public.

I am going to be very frank with you. The adjustment for old-line companies such as our own has not always been painless. We have found that it is not possible for us to profitably market certain domestically made footwear in certain constructions.

In those cases, we have resorted to offshore sourcing for finished footwear, or we have sourced essential components offshore and completed the manufacturing process in the United States.

We are presently enjoying a resurgence of demand for shoes produced in the United States, because of the ability of our domestic factories to respond to shifts in market trends in a relatively short time frame based on our current access to raw materials and components. It is also worthy of note that the United States is the world's largest resource for bovine leather and sheepskin. This means that there are significant cost advantages in manufacturing footwear from those raw materials in the United States. Such footwear is the primary product of our U.S. factories. We have found in the current highly competitive situation that the most economical place to produce finished footwear is where the principal raw material-leather of the type needed for the shoe—is available.

What I am saying is that in today's competitive environment, in order to maintain our factories in the United States, we must be left free to judge consumer demand and to respond to it in the most efficient and effective manner possible on a worldwide basis. Any restriction would inhibit our ability as an American company to continue to allocate our resources in a manner which preserves American jobs by having our U.S. facilities produce the shoes for which they have a comparative advantage and to buttress their production with shoes imported from other countries when we find that the comparative advantage runs clearly in their favor.

You are being told that this bill will bring jobs back to the United States. In our case, it would not.

It is our impression that the effect of the bill will be twofold:

First, it will increase the price of low-end footwear that could never be produced economically in the United States. It will thus place an added burden on consumers of limited financial resources.

Second, it will provide motivation in every foreign country to produce higher priced, high-quality footwear which will compete directly with the sort of shoes which can be produced efficiently in the United States. Thus, the quotas may very well displace additional U.S. workers and further dislocate U.S. production.

We urge you to report unfavorably on the footwear provisions of H.R. 1154. Thank you for your time.

Chairman Gibbons. Thank you.

Our last witness on this panel is Mr. Harari.

STATEMENT OF DAVID HARARI, CHAIRMAN, IMPORT COMMITTEE, NATIONAL FASHION ACCESSORIES ASSOCIATION, AND VICE PRESIDENT, SARNE CORP., NEW YORK, NY

Mr. Harari. Thank you, Mr. Chairman.

Good afternoon, members of the Subcommittee on Trade. I am David Harari, vice president of Sarne Corp., an importer of handbags and related fashion luggage products such as tote bags. I am appearing today before the subcommittee in my capacity as chairman of the Handbag Import Committee of the National Fashion Accessories Association to express our group's strong opposition to the Textile and Apparel Trade Act of 1987, H.R. 1154. The Handbag Import Committee consists of approximately 45 companies importing handbags and related luggage products.

Importers of handbags and luggage are in a different position from most industries affected by H.R. 1154 because we are not importers of textile products as that term is commonly understood.

"Handbags" and "luggage" encompass a diverse group of noncompeting products, including travel goods, and other products such as briefcases, portfolios, school bags, photographic equipment bags, golf bags, camera cases, binocular cases, gun cases, occupational cases, as well as women's and girls' handbags and tote bags.

These products, particularly handbags, are manufactured from a wide range of materials, the most important of which include leather, plastics and straw, as well as textile materials, including many not commonly produced in the United States, such as silk, linen, burlap, jute, and banja, and from a myriad of other materials, such as metal, wood, lucite, caning, wicker, horsehair, rubberized cotton, and beads.

We do not see ourselves competing with a domestic textiles industry. The market for lower priced textile handbags and similar luggage products existing in the United States today was never based upon U.S. production. For the most part, this existing low-priced volume handbag industry originally developed in the 1970s through the use of imports. The limited domestic production of these products sells at substantially higher price points and does not compete with imports.

The absence of real competition between imports and the limited domestic production of these products was confirmed by a 1985 ITC study which showed the unit value of domestic production of man-made fiber luggage was more than eight times the value of nonproducer imports. These are totally different products serving totally different markets.

Despite the fact that our imports do not compete with any domestic textile industry and should not be subject to any quotas, the enactment of H.R. 1154 would place global quotas with one percent growth on all textile handbags and luggage. This includes cotton and man-made fiber products currently subject to selective restraints and products made from certain traditional materials other than man-made fibers or cotton exempt from the product coverage of the MFA by reason of the MFA's Protocol of Extension of July 31, 1986.

The enactment of H.R. 1154 consequently would have an extremely harmful impact on U.S. importers of handbags and luggage, reducing importations across a wide range of products. The impact would be felt on those currently fashionable products manufactured of cotton and certain traditional fibers which would be cut back under the bill, as well as products not currently in fashion which will be unable to enter the United States in the future at levels achieved in earlier years.

The net result of H.R. 1154 would force some U.S. importers out of business and generate significant employment losses in the U.S. import community without any offsetting benefits to a U.S. textile industry.

Overall demand and consumption for low-priced textile handbags and luggage will contract, harming not only U.S. importers, but also retailers of these products and their employees, as well as U.S. carriers and U.S. ports and their employees.

Whatever the benefits may be of protection for domestic textile industry, the overbroad protectionism of H.R. 1154 will cause substantially more harm than good. No justification exists for expanding the already excessive restrictions on handbag and related luggage imports. The Handbag Import Committee strongly urges that H.R. 1154 be defeated.

Thank you for the time.

[The statement of Mr. Harari follows:]

STATEMENT OF DAVID HARARI
President of Sarne Corporation
On behalf of the Import Committee
of the National Handbag Association

The Import Committee of the National Handbag Association (the "Handbag Import Committee") wishes to express its opposition to the Textile and Apparel Trade Act of 1987 (H.R. 1154). The Handbag Import Committee consists of approximately 42 companies involved in the importation of handbags and luggage made from such materials as cotton, man-made fibers, jute, silk, linen, burlap, and banja.

The Handbag Import Committee opposes H.R. 1154 because the bill would impose additional quotas on imports of handbags and luggage made from such natural and man-made fibers and, as a result, would severely cut back the level of such imports even though there is no U.S. domestic production of such articles and imported handbags and luggage do not compete with any domestically manufactured items.

The U.S. Handbag and Luggage Industry are Not "Textiles" Industries.

The terms "handbags" and "luggage" encompass a diverse group of non-competing products. For U.S. import purposes, Schedule 7, Subpart D, Headnote 2(a), of the U.S. Tariff Schedules defines luggage as follows:

> For the purposes of the tariff schedules--
>
> (a) the term "luggage" covers--
>
> (i) travel goods, such as trunks, hand trunks, lockers, valises, satchels, suitcases, wardrobe cases, overnight bags, pullman bags, gladstone bags, traveling bags, knapsacks, kitbags, haversacks, duffle bags, and like articles designed to contain clothing or other personal effects during travel; and
>
> (ii) brief cases, portfolios, school bags, photographic equipment bags, golf bags, camera cases, binocular cases, gun cases, occupational luggage cases (physicians', sample, etc.), and like containers and cases designed to be carried with the person, except handbags as defined herein;

Although handbags include pocketbooks, purses, shoulder bags, clutch bags, and similar articles generally carried by women and girls, the line between handbags and luggage is not clear. The Handbag Import Committee is comprised of primarily importers of handbags. However, many of their products are classified under the U.S. Tariff Schedules as luggage primarily because of product size or characteristics of construction. This array of products is not manufactured by a single industry and does not service a single U.S. market. Generalizations about these industries or these markets, therefore, are not possible.

However, it is generally recognized that these industries are not "textiles" industries as that term is commonly understood. Handbags and luggage produced in the United States are manufactured from a wide range of materials, the most important of which include leather, plastics (*e.g.*, vinyl and polyurethane), and straw, as well as certain textile materials not commonly produced in the United States, such as silk, linen, burlap, jute, and banja. In addition, handbags and luggage produced in the United States are manufactured from a myriad of other materials, such as metal, wood, lucite, caning, wicker, horsehair, rubberized cotton, and beads.

Handbags and luggage are not "textile" products as that term is commonly understood under the Multifiber Arrangement (the "MFA" or "Arrangement"). Article 12, paragraph 1, of the MFA originally limited the scope of the Arrangement by defining "textiles" for the purpose of the MFA as follows:

> For the purposes of this Arrangement, the expression "textiles" is limited to tops, yarns, piece-goods, made-up articles, garments and other textile manufactured products (being products which derive their chief characteristics from their textile components) of cotton,

> wool, man-made fibers, or blends thereof, in which any or all of those fibers in combination represent either the chief value of the fibers or 50 percent or more by weight (or 17 percent or more by weight of wool) of the product.

MFA, Art. 12(1) (emphasis added).

As previously noted, handbags and luggage are part of a broader industry including handbags and luggage made from leather and plastics among other materials. These articles do not take their "[c]hief characteristics from their textile components" and thus do not fall within the scope of the term "textiles" as defined by the MFA. In fact, the U.S. Government classifies all luggage and handbags regardless of material under SIC 316 and SIC 317, respectively, as "[l]eather and leather products."

Moreover, the U.S. tariff classification system does not adhere to this MFA definition of "textiles" with respect to handbags and luggage. Instead, the U.S. system classifies handbags and luggage on the chief value of the outer shell only. In this regard, Headnote 3 of Schedule 7, Part 1, Subpart D, "Luggage; Women's and Children's Handbags; and Billfolds, Card Cases, Coin Purses, and Similar Flatgoods" states:

> 3. For purposes of the subpart--
>
> (i) Locks and other hardwear fittings, frameworks, and linings, and
>
> (ii) Bottle, dining, drinking, manicure, sewing, traveling, or similar sets fitted into luggage and handbags
>
> shall be disregard in determining the component material of chief value in the products.

As a result of the exclusion of many of the components of handbags or luggage from the calculation of chief value, a product with an insignificant amount of man-made fibers, cotton, or other natural fibers by weight or value may be classified as being of textile materials.

Handbags and luggage have not been treated in the same fashion as textile products generally by the U.S. Textile Import Program. It was not until 1984 that the United States began imposing quotas on imports of handbags and luggage. In fact, Congress recognized the distinct position of handbags and luggage in its consideration of the Textile and Apparel Trade Enforcement Act of 1985 by establishing separate provisions for such products.

For these reasons, the Handbag Import Committee believes that imports of such products should not be subject to quotas at all and has urged the U.S. Government to eliminate existing quotas.

The Impact of H.R. 1154 on Importers of Handbags and Luggages.

Rather than eliminating existing quotas, the enactment of H.R. 1154 would place global quotas with one percent growth on all textile handbags and luggage. This includes categories of products subject to selective restraints from the largest supplying countries as well as products not even subject to the MFA by reason of the MFA's Protocol of Extension of July 31, 1986. The Protocol of Extension stipulates that certain products such as bags, sacks, and luggage, which are made from certain traditional materials other than man-made fibers or cotton, are exempt from the product coverage of the MFA. See 1986 Protocol of Extension, para. 24(iii).

The enactment of H.R. 1154 consequently would have an extremely harmful impact on U.S. importers of handbags and luggage, reducing importations across a wide range of products. As fashion-accessory items, handbags and luggage are constantly subject to sudden shifts in tastes and styles, with the importance of the materials used to manufacture such products being extremely sensitive to such shifts. Also, style changes and cost often can result in long-term trends in favor or against certain materials. For example, improvements in styling and material quality led to an increased usage of man-made fibers during the early 1970s; more recently, changing styles have resulted in the shift away from man-made fibers in the manufacture of handbags and luggage toward an increased use of cotton as well as silk, linen, burlap, jute, and other vegetable fibers.

As a result, U.S. import levels of handbags and luggage made from these natural fibers have been increasing while those comprised of man-made fibers have been decreasing. Enactment of H.R. 1154 would cut back a substantial amount of trade and would prevent the continued development of this market for handbag and luggage products comprised of cotton, silk, linen, burlap, and other vegetable fibers, which are creating new fashions and new products. Similarly, passage of this legislation would prevent imports of handbags and luggage made from man-made fibers from increasing sufficiently in the future to meet demand for these products when a shift in style or cost occurs.

The net result of H.R. 1154 would force some U.S. importers out of business and generate significant employment losses in the U.S. import community. In addition, the enactment of this bill would not produce any offsetting benefits in terms of U.S. production or employment levels in a U.S. textile industry -- one of the underlying purposes of H.R. 1154. As detailed below, domestic production cannot satisfy the low end of the market currently supplied by imports of these products. Instead, overall demand and consumption for textile handbags and luggage will contract, harming not only U.S. importers but also retailers of these products and their employees. In addition, the decline in imports of these products will adversely affect employment of U.S. carriers and at U.S. ports of entry.

U.S. Imports of Handbags and Luggages Do Not Compete With A U.S. Domestic Industry.

There is no U.S. industry which the textile-quota bill can protect by subjecting imported handbags and luggage to global quotas. There are no economic data available on the U.S. producers of textile handbags and luggage as distinct industries, and it is extremely difficult to develop useful data by material composition because of the large number of small establishments which comprise the handbag industry. In this regard, the U.S. International Trade Commission in a recent study on flat goods, luggage, and handbags of man-made fibers (U.S. ITC Pub. 1737, August, 1985) concluded that a definitive listing of firms of these industries does not exist and that the data that the ITC had collected on the handbag and luggage industries in all likelihood significantly understated its size.

Moreover, the market for moderately priced textile handbags and luggage existing in the United States today was never based upon U.S. production. These markets were originally developed in the 1970s through the use of imports. The limited domestic production of these products sells at substantially higher price points and does not compete with imports.

In the case of luggage, the ITC in this 1985 report on handbags, luggage, and flatgoods reported that the average unit value of domestic shipments of man-made fiber luggage in 1984 amounted to $29.42 compared to the average unit value of imports by domestic producers of $11.77. These products are used to supplement domestic production and do not compete with it. Similarly, the tremendous difference between the average unit price of non-producer imports--$3.26 per unit--when compared to domestic luggage shipments demonstrates that non-producer imports do not compete with domestic production. Although no domestic production data and domestic producers import data are available, textile handbag imports occupy a separate market niche at prices considerably below U.S. products.

In the absence of a competing domestic industry producing handbags and luggage for the low end of the market, the enactment of H.R. 1154 would severly reduce the availability and diversity of textile handbags and luggage in the U.S. market, thereby reducing demand for such products and increasing their price. This result would harm not only U.S. importers of such products, but also those U.S. domestic handbag and luggage manufacturers -- approximately 50 percent of the industry -- that import such articles to supplement their domestic production. The reduced availability of such merchandise would similarly harm U.S. retailers and their employees as well as U.S. ports of entry and U.S. carriers.

Conclusion

The Import Committee believes the enactment of H.R. 1154 would not raise production or employment levels in a U.S. textile industry. No justification exists for the imposition of quotas and cut backs in imports of textile handbags and luggage that will result from the enactment of H.R. 1154. For these reasons, the Handbag Import Committee urges that this legislation be defeated.

Chairman **Gibbons**. I think this panel of witnesses has demonstrated again how complex the results are of this relatively simple-looking piece of legislation. I appreciate the effort that you have put in coming before us today.

We have been speculating up here on the panel about the number of handbags that our wives have accumulated over the years and the trouble we are going to have with them if we pass this legislation as it is proposed.

But I don't have any questions of this panel.

Mr. Schulze, do you have any questions?

Mr. **Schulze**. No, Mr. Chairman, I don't have any questions.

I would like to thank our witnesses for their presentation. It seems they are unanimous in their opposition. I was interested to hear either Ms. Hughes or Ms. Padduck say that defeating this bill would save the consumers a couple billion dollars a year. Ms. Hughes or Ms. Padduck, which one of you said it would save the consumer?

Ms. **Padduck**. I said it is estimated that it would cost consumers over $2 billion a year over a period of 10 years.

Mr. **Schulze**. Do you have that broken down any more definitively?

Ms. **Padduck**. If you will give me a moment, please. I think it is broken down here.

Mr. **Schulze**. I am really looking for some everyday examples. For example, could you tell me that such and such a product sells—maybe we ought to wait until we get to the retailers—sells for so much, costs so much, mark up is so much? That is the kind of information I am looking for and have been unable to get as of yet.

Ms. **Padduck**. I think the lack of availability of some of the lower-end products would cause a lot of the overseas producers—you know, they are only capable of exporting so many pairs to the United States. They would want to make maximum profit on that footwear and I think that it would really increase the prices to the U.S. importers and consequently to the consumers.

Mr. **Schulze**. Are you talking about footwear or total saving from the bill?

Ms. **Padduck**. That was just footwear——

Mr. **Schulze**. $2 billion over a 10-year period?

Ms. **Padduck**. Yes.

Mr. **Schulze**. How many of these manufacturers are owned by domestic sources in the United States?

Ms. **Padduck**. How many of the manufacturers——

Mr. **Schulze**. Overseas producers, yes.

Ms. **Padduck**. I don't have those statistics. I haven't seen those.

Mr. **Schulze**. A small number, medium, large——

Ms. **Padduck**. I don't believe that there are that many overseas manufacturers that are owned by U.S. companies, not to the best of my knowledge, unless Mr. Rowland has that information.

Mr. **Schulze**. Anybody else want to comment on that?

Mr. **Rowland**. We don't have information about that, but it is my opinion in terms of our own members that it is not a common case for the——

Mr. SCHULZE. But wouldn't the large chains, Mr. Rowland, find it a lot more efficient to have a little more vertical integration?

Mr. ROWLAND. Apparently not. The retailers testified here before and I can't speak on their behalf. They are also direct importers, but it is not my impression that they own factories overseas. I think that there is great specialization in the overseas factories, which in essence, provides greater flexibility for the U.S. importer or retailer.

Mr. SCHULZE. Do retail-chain footwear stores buy from a variety of suppliers and then just put their label on the product?

Mr. ROWLAND. Yes. The major footwear retail stores—I think it varies. I think it varies with the type of product and with the position in the industry. I think that Florsheim might be able to explain better.

In terms of the volume shoe importers, which are the members which I represent, they import a wide variety of shoes from a wide variety of factories and their customers do the same.

Their customers, by and large, are the major exclusively footwear retailers and mainly of lower priced footwear.

Mr. SCHULZE. Mr. Mueller?

Mr. MUELLER. In the volume area, in many instances, they prefer to buy under their own label for obvious reasons, at least to sell and build on the product that they produce and sell through their own stores.

A lot of branded merchandise or branded companies don't see that as an avenue of distribution anyway. Smaller shoe stores will rely on brands. They don't have the buying power nor do they get involved in direct purchasing to come up with those minimums, but they really don't want to be in that business, they are retailers, so they rely on us and others like us.

Mr. SCHULZE. It seems to me that in the shoe business like everything else, the little corner retailer is disappearing rapidly. I would guess most of the volume comes from chains which operate in shopping centers. Is that a pretty good characterization or not?

Mr. MUELLER. Yes, it is. There is a declining amount of family shoe stores. I sign account closings every day. We have opened up some new ones. We are looking to broaden our distribution network hopefully in a way commensurate with the product that we want to sell and present.

However, that is difficult. And we need a lot of diversification of product to do that. And just a brief example would be that we have always been a dress shoe house, so to speak. But, today a dress shoe is a lot of things.

Looking in this room today, there are people with pin-striped suits and black leather upper shoes with cushion crepe rubber bottoms that I grew up calling casuals, well, they are dress shoes to that person.

There are a lot of styles that satisfy business footwear, and the like, so Florsheim Shoe Co. wants to grow, they don't want to be that little niche referred to today. We want to come out of that to a larger company via greater product selection and we would need access to do that.

Mr. SCHULZE. I own a chain of 100 shoe stores in malls across the country. How do I buy my shoes? Do buyers come to me and then say, "Well, put our TS label in all these shoes"?

Mr. MUELLER. It depends on who you are. If you are a Foot Locker, you are buying branded footwear. There are no interests that own hundreds of stores.

Mr. SCHULZE. I am not talking about an independent, I am talking about a fellow that owns a chain of a couple hundred stores. How much does he dictate what is coming into that store or how much does the supplier dictate what is coming into that store?

Mr. MUELLER. The supplier doesn't dictate at all.

Mr. SCHULZE. So the buyer says, "I want so much of such-and-such a style," and then he will go to three or four manufacturers, and say, "What is your best price on this or what quality or how do you make it?"

Mr. MUELLER. He would do that routinely, shop the marketplace and see what companies would make private label No. 1, and of those who would make it, what are their prices, and quality and service levels, do they warehouse shoes or not and so on.

He would shop the market.

Mr. SCHULZE. What is the average markup in shoes?

Mr. MUELLER. I can't answer that. I don't know. We don't dictate that either.

Mr. SCHULZE. Well, it seems that every time you walk past a shoe store, there is a 50 percent discount. I didn't know whether that is true or whether it was a large markup item.

Mr. MUELLER. I hope it wasn't one of ours. I can't answer that. I think the businesses have to get the margin that they need to pay their bills and get whatever bottom line they are looking for.

For the most part, you can buy footwear at almost any price if you shop.

Mr. SCHULZE. Thank you.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Guarini.

Mr. GUARINI. Mr. Mueller, what percentage of shoes do you make domestic and sell domestic as opposed to what you import? What is the ratio?

Mr. MUELLER. I need to answer in part.

In the manufacturing part of our business, which is the Florsheim wholesale part, the men's, we still manufacture 70 percent of our footwear here in the States.

Mr. GUARINI. Seventy percent of your gross is domestic-produced?

Mr. MUELLER. Yes.

Mr. GUARINI. For men and women?

Mr. MUELLER. For men.

Mr. GUARINI. And for women?

Mr. MUELLER. Women—we just got back in in 1985. There is some domestic, probably half domestic, half imported, a much smaller number.

Mr. GUARINI. You are talking about gross as opposed to numbers of shoes? I imagine that imports would be the cheaper, so that there would be an even larger ratio if you are talking about number of shoes.

Mr. Mueller. In our case, imports aren't necessarily cheaper. Many of our imported shoes are more expensive than our domestic shoes.

Mr. Guarini. If there is a greater markup, is the retailer the beneficiary when imported from abroad as opposed to the consumer?

Mr. Mueller. I think the consumer is the beneficiary.

Mr. Guarini. Isn't it true that there is more room because of cheap labor in other countries like Spain or Taiwan? Isn't there more room for profit from overseas products?

Mr. Mueller. Not necessarily. In some instances, yes. In other instances, it is just the type of product we need to make offshore. It wouldn't give us any more profit than something we would make here.

Mr. Guarini. So you are telling this committee that it is no more profitable or any better margin of profit that you would have on a markup of a domestic-made shoe as opposed to an imported shoe as a matter of policy?

Mr. Mueller. There are types of imports, so that would not afford us any more margin and others that might afford us more margin.

However, we don't really look at it that way—I don't want to divulge how we market our line and price our products, but if you shop the marketplace and look at our prices imported or not, they would be very, very competitively priced.

Mr. Guarini. I am sure they are competitively priced, but there could be a larger markup on imports from other companies because there is room there.

I am wondering whether or not there is a differentiation of policy and if the retailers are the beneficiary to bringing in more imports as opposed to domestically manufactured products?

Mr. Mueller. I don't know. We don't have that situation so I don't feel qualified to answer that.

Mr. Guarini. The shoes brought in from overseas, half women and 30 percent of men in your particular company, would those be mostly skins that would have been sent from the United States that were also tanned in the other country?

Mr. Mueller. It would be none of that——

Mr. Guarini. In other words, I understand that we export a tremendous amount of skins to other countries for tanning, hides, so that there are two little industries that we are talking about here, not only footwear, but also the tanning industry.

Is it a fact, as I recall, that we are a major exporter of hides——

Mr. Mueller. Yes, we are.

Mr. Guarini. And that we then send the hides to the foreign country and even when we make our own shoes here, we are getting the hides sent back with an extra cost added on to them; is that correct?

Mr. Mueller. I believe that is correct.

Mr. Guarini. So we not only lost the shoe industry, but we lost the tanning industry as well?

Mr. Mueller. I don't know how to respond to that. In our case, Mr. Guarini, most of the shoes we import, a greater percentage of them, would be made of materials that would be available in those countries. We are in a different situation there.

Mr. GUARINI. Ms. Hughes, were you the one that mentioned about the $2 billion that the consumer would save——

Ms. PADDUCK. No, it was the cost to the U.S. consumers of $2 billion dollar per year if this bill were implemented.

Mr. GUARINI. You are talking about the shoe industry itself?

Ms. PADDUCK. Yes.

Mr. GUARINI. Did you do any studies on what it means to the taxpayer if in this bill 2 million jobs are put at risk as far as unemployment, training, relocation, payment of public assistance and social services? Did you do a study in that regard?

The consumer is still the taxpayer and when you have 1 percent unemployment, approximately a million people, it would make a difference of $20 billion to the American public through tanks because these are people that we would have to sustain so that there is also an offset to the consumer as to what we will have to pay people, and we had 142,000 people according to the reports that were put out of work since 1980, and I am wondering whether or not you figured that into how it would affect the consumer, the taxpayer?

I will accept if you do not have any figures, but I think we should have both sides of the equation in order to fully understand the problem we have on the table.

Ms. PADDUCK. According to the studies that we do have here there would be a net loss of 52,000 retail jobs in the textile and apparel and footwear industries.

Mr. GUARINI. That is approximately, if you are talking——

Ms. PADDUCK. Those are retail jobs.

Mr. GUARINI. That would be one-twentieth of 1 percent unemployment if my figure is right, the $20 billion, so it——

Ms. PADDUCK. It would be $2 billion. It was a cost of $2 billion over a period of 10 years. So you are saying $20 billion over the——

Mr. GUARINI. Per year.

Ms. PADDUCK. $2 billion per year, that is correct.

Mr. GUARINI. Let's get this straight. You say that the cost to the consumers would be $2 billion per year?

Ms. PADDUCK. Yes.

Mr. GUARINI. What is the 10 year?

Ms. PADDUCK. Over a period of 10 years?

Mr. GUARINI. $2 billion per year?

Ms. PADDUCK. Right.

Mr. GUARINI. For a 10-year period?

Ms. PADDUCK. That is right.

Mr. GUARINI. Okay.

Ms. HUGHES. The study we were involved in, referred to, compared the job increases that might be sustained by the textile and apparel and footwear industries and compared them only to job losses in retailing, which was the only sector we could quantify there was a net job loss. In retailing, more jobs were lost in retailing than would be created in the other industries. So that that is the way that the comparison works in this one study that we have been referring to.

Mr. GUARINI. What I am trying to get to is that we also have associated cost of closing down plants, not just manufacturers or to the retailers that would be dealing with the domestic products, but we have hundreds of thousands of people involved. We have an industry of textiles and footwear of 2 million people. Of course, if these jobs are at risk, I am asking if you know what it costs to the consumers, would you know what the taxpayer—did you execute a study to find out what the cost would be for every 100,000 jobs we lose in these industries? What is the offset or is the social security greater than the consumer costs because the consumer is the one that pays taxes and if 1 percent unemployment amounts to $20 plus billion, you have got to figure that into your equation if you are being fair in the kind of statistics you are giving the committee.

Ms. HUGHES. I think that we could come back to the committee and talk about what would be the cost to the taxpayer per job loss, but I think that no one on this panel would agree that every job in the textile and apparel and footwear industry will be lost, that none of those people could find another job in another industry. We would be glad to meet with the committee and share with you some——

Mr. GUARINI. You would have to find out what kind of jobs they would do, and you have cities and towns that will be seriously impacted and dislocated. You can refer to the cities nationwide, but I think when you break it down to states and communities, you may find that there are some communities that could be wiped out by major industries, footwear and textile and apparel are closing down. I know my area in Hudson County, NJ, has a tremendous number of shutdowns in the apparel industry, and they are very seriously affected. So when you give me nationwide statistics, it really doesn't help that much, because we are not relating to specific families and people.

Thank you very much.

Ms. PADDUCK. I am sorry, I was just going to say that the Footwear Group of the AAEI supports a trade adjustment assistance program——

Mr. GUARINI. Which is another cost. All of these things cost money, so that when a person goes out of work because of foreign imports, then the public picks up the check and pays them unemployment, pays them trade assistance—they get up to a year and a half—and they also get different forms of SSI and food stamps and social services and medicaid, and so many other things that come into the equation that our preference is to keep people productive and paying taxes instead of putting them out of work and have the public expense for social services. That is my point.

Thank you.

Mr. FRENZEL. Mr. Harari, you indicated you are going to be subjected to new quotas under H.R. 1154? I wasn't sure I understood why. Is it because the hard 100 percent applies to everything where today you are not subject to quotas on every item in the lines?

Mr. HARARI. I think your understanding is correct. There are quotas on selected categories from selected country suppliers. However, there are also many other country suppliers that are not at this point subject to any quotas. There are also specific products made from certain textiles—bags and luggage products—that are exempt from any restraints under the MFA. However, H.R. 1154 would place those under import control with a 1-percent-growth limit.

Mr. **Frenzel**. Contrary to its self description, H.R. 1154 does expand coverage and all kinds of textile coverages. Is that correct?

Mr. **Harari**. That is absolutely correct, and this is also in an area in which there were no quota controls until 1984. 1984 was the first year in which quotas were placed on luggage products.

Mr. **Frenzel**. Thank you very much.

Mr. Mueller, you indicated you stopped the production of women's shoes. What induced you to come back into it?

Mr. **Mueller**. From our point of view we feel it is a new dimension for our business today with the working women and their need for quality comfortable footwear. We are going to make an attempt to satisfy them.

Mr. **Frenzel**. You are looking at a new or different market?

Mr. **Mueller**. Yes.

Mr. **Frenzel**. And you tried to do it at home?

Mr. **Mueller**. We are trying awfully hard, and that is contrary to everything that is happening. I hope we never have to be out of manufacturing here. We are planning to stay in for a long time.

Mr. **Frenzel**. You are the largest manufacturer of men's footwear, dress footwear?

Mr. **Mueller**. Dress letter quality footwear, we think we are.

Mr. **Frenzel**. You think this bill is going to hurt you?

Mr. **Mueller**. It can.

Mr. **Frenzel**. That is sort of a stunning indictment, I would think.

Mr. Rowland, you indicated that the bill in order to save some jobs for some people was going to cost other jobs for other people. We also heard one of the other witnesses indicate that in her opinion, there would be more jobs lost than saved.

Do you have a study or an opinion on that?

Mr. **Rowland**. No studies, sir. An opinion on everything about the footwear business. It is very likely that as prices increase as a result of the effects of this bill, that jobs will be lost in the United States, by everybody associated with imports, and they will not—there will be very little offsetting of jobs created in domestic industry.

This has become an extremely competitive industry in which prices have actually gone down over a period of 6 or 7 years. The quality of the product being imported at a low price in the volume market, which is aimed at the poorest of Americans, is an incredible value, and so I think that—I have no study to back it up—but I think it is very fair to say that price increases are already happening due to changes in the exchange rates. That we have hit the bottom of the market from such supplying, from almost all supplying countries. Taiwan, Korea, Spain, Portugal and Italy, and Brazil, in its own chaotic situation—all are shipping fewer shoes at higher prices and that the bottom of the U.S. market is being affected already. If this bill were to pass, I think it would largely disappear. I think almost the entire net effect would be at the bottom of the market.

Domestic manufacturers never served the kind of quality for value that we are talking about and they do not now have the capacity to do it, even if they had the will.

Mr. **Frenzel**. So all of these limitations of the bill always have to beggar a few others who may be in the way in order to save a certain favored few. And it is up to the political tinker to decide whose friend is going to be protected, and which of the people who aren't friends are going to have to pay the cost of protection?

Mr. **Rowland**. I believe that that is true with any quota. I think it is absolutely so in terms of footwear.

Mr. **Frenzel**. I would like to ask you and Mr. Mueller to address the effect quotas have on upgrading imports. When we did a voluntary restraint agreement with Japan, the very clever Japanese car manufacturers, having a certain volume to play with, knew they had to sell a little fancier car. They simply put more gadgets on them to get the price up, and then they could command a price that held an umbrella over U.S. producers who let their prices come up as well.

You indicated that there would be a similar phenomena in footwear. Can you describe that to me a little better? Is it going to be that kind of parallel?

Mr. **Mueller**. If I can.

Mr. **Frenzel**. Since they only can sell so many shoes, are they going to put tassels on them and whatever?

Mr. **Mueller**. From our standpoint that is an assumption. If I may, before I give a full answer, getting back to the other points we were discussing, we are a large producer, maybe the largest of quality dress men's shoes, but we are also a marketing company of a much broader line of quality footwear, including many segments of product that we do not manufacture, and cannot manufacture.

The upgrading of the product on the more limited basis is in terms of quotas, it would be our assumption that that is what would happen. The marketplace, of course, would dictate the success of that.

Mr. **Frenzel**. Mr. Rowland, have I described that correctly? Do you agree?

Mr. **Rowland**. Yes sir, I certainly agree that I think there are very few people in the footwear business in the United States or overseas who make shoes because they want to make shoes. I think they are in the business to make money. If you restrict the quantity, it is very likely that in order to maintain income they would have to produce better footwear at a higher price.

Mr. **Frenzel**. What will the U.S. producer of the same shoe do?

Mr. **Rowland**. We are talking about a limited area of maneuverability now for the domestic producer and I think they would then have direct competition in products for which they have now relatively little competition. I think it would hurt. I think everything about quotas for footwear would hurt the domestic industry.

Mr. **Frenzel**. Tell me about sport or athletic footwear. As I understand it, we don't make enough of that in this country to shoe a high school track team, do we?

Mr. **Rowland**. I think that is true. I think it is. The impact of athletic footwear—and Ms. Padduck represents an athletic footwear company—was largely imported from the beginning. What you and I might call sneakers was in part an American product, but performance athletic footwear I think is certainly now almost entirely——

Mr. **Frenzel**. What is the effect if those are frozen under 1154? Do we have to develop an industry in the United States, or do we all go back to habits of indolence?

Mr. **Rowland**. I think it would be very hard to predict what would happen, because that is now such a very large part of the market.

Mr. **Frenzel**. I have the feeling that as foreign sources developed the athletic shoe and the sports shoe or the informal shoe for reasonable prices, we started wearing a lot of them, and the market was really developed by that particular trend. The U.S. shoemakers never had a corner or that market, never knew how to develop it, and that market came from abroad?

Mr. **Rowland**. It did. I think when it began, I think that people didn't believe that the American consumer was ready to pay $25 for a pair of sneakers and while we had a disbelieving industry, foreign manufacturers were saying yes, and I think that——

Mr. **Frenzel**. So we're protecting an industry that doesn't exist if we quota those shoes?

Mr. **Rowland**. I think that is very true. Not just those shoes, but also the bottom of the market. I think much more important are the very inexpensive shoes that were never made.

Mr. **Frenzel**. If Mr. Jenkins passes his bill, maybe you and I ought to get into the shoe manufacturing business.

Mr. **Rowland**. Or quota brokering.

Mr. **Frenzel**. I thank the panel.

Chairman **Gibbons**. All right, well, thank you very much for coming.

Ms. DuBrow, would you like to introduce the president?

Ms. **DuBrow**. Mr. Chairman, thank you.

Members of the committee, I would like to introduce Jay Mazur, the president of the International Ladies' Garment Workers' Union, and I want to thank you for the opportunity to testify before the subcommittee on H.R. 1154.

Chairman **Gibbons**. Ms. DuBrow is our friend and a very effective voice here.

STATEMENT OF JAY MAZUR, PRESIDENT, INTERNATIONAL LADIES' GARMENT WORKERS' UNION, AFL-CIO, ACCOMPANIED BY EVELYN DUBROW AND HERMAN STAROBIN

Mr. **Mazur**. Let me echo those sentiments, Mr. Chairman.

I am Jay Mazur, I am president of the International Ladies' Garment Workers' Union. As you know, I am joined this afternoon by Evelyn DuBrow, who rightly deserves our highest praise, and equally praiseworthy is Herman Starobin, our research director, who has devoted a great deal of time and effort in this undertaking and represents us with the Government in negotiations with foreign countries on trade.

I also want to thank you, the committee, and particularly you, Mr. Chairman, for the opportunity to be here this afternoon and to testify before this committee on what we consider a very important matter.

Our union has some 200,000 members employed in the production of women's and children's apparel, accessories and related products. Our members live and work in more than two-thirds of the States spread across our Nation.

I am here today in support of H.R. 1154, the Textile and Apparel Trade Act of 1987. The survival of our industry and the jobs of 900,000 garment workers depend on its passage into law. Unless forceful action is promptly taken the American apparel industry faces extinction in the very near future.

This dire prediction is not ours alone, but is shared by the Congressional Office of Technology Assessment. A just released OTA report on the textile and apparel industry predicts that by the year 2000 there will be no apparel production in the United States. As dire as that prediction is, in our judgment it is overly optimistic.

We have also made projections on the fate of the domestic apparel industry. Apparel imports accounted for 55 percent of domestic consumption in 1986. For women's and children's apparel alone, imports captured closer to 60 percent of the domestic market last year. Now, if we project forward the import penetration figure for all apparel, using recent trends in imports and consumption, you will understand the urgency of our problem. Between 1980 and 1986, imports of apparel rose at an annual rate of nearly 15 percent. Let's assume that apparel imports continue growing 15 percent a year—and they will, in the absence of congressional action. The long term growth in U.S. apparel consumption, on the other hand, has ranged around 1 percent per year. Let's carry that 1 percent annual market growth forward.

If these trends continue—15 percent import growth and one percent market growth—we project that apparel import penetration will reach 63 percent in 1987, 72 percent in 1988, and 82 percent in 1989.

In short, the domestic industry will, for all intents and purposes, have lost its vitality. By the end of 1989—less than 3 years away—the number of U.S. garment workers will drop below 400,000. That represents a decline of over 500,000 jobs from today's level. By 1990, import penetration will reach 93 percent. At best, a shell will remain, consisting of firms doing all their production abroad, with little more than sales activity remaining in the United States.

Even if import growth could be held to 6 percent a year, the growth rate allegedly sought by the administration, the demise of the domestic apparel industry, will merely be delayed a few years. By 1994, using this 6-percent annual growth rate, the penetration rate for imported apparel would exceed 80 percent, and the domestic industry would then no longer be viable.

The full severity of this wholesale job destruction will be felt throughout our Nation. It will affect a whole series of supplier and consumer industries and the economic survival of countless communities. Many of the Nation's major apparel production centers will disappear. And small communities across the country will lose their already tiny manufacturing base, the chief mainstay of many a local economy.

The lost purchasing power of displaced garment and textile workers and their families will seriously hurt retailers and service providers. Overall economic growth, historically based on increasing consumer expenditures, will be curtailed.

Tax revenue will be seriously impacted. Many individual living standards, and our collective living standard as a nation, will suffer as a result.

Displaced garment and textile workers constitute our own Third World. Over 80 percent of the garment production work force is female. Many are members of minority groups. Many garment workers are recent immigrants with limited education and English language skills. In short, most garment workers have few opportunities for alternative employment.

The statement I am submitting for the record raises a number of related issues, many of which will be discussed by my fellow panel members. Let me say a few words about the major trade bills before this Congress:

It would be helpful if comprehensive trade legislation such as H.R. 3 could be effective in industries such as ours. However, such unfair trade practices as dumping, subsidies, or barriers to U.S. apparel imports are not at the core of our import problem. The problem we face is not a lack of competitiveness in design or productivity, rather, it is the extremely low wages and deplorable labor conditions prevailing in the major apparel shipping countries.

Provisions dealing with foreign labor conditions and practices are sound in theory, but unfortunately are slow acting remedies. Given the timetable for the destruction of our industry, far speedier remedies are essential.

What about retraining? Most labor intensive jobs for which garment workers could be retrained have similarly been destroyed, or are in the process of destruction, by foreign sourcing. Ours is a labor intensive industry. We need industry specific legislation.

The Textile and Apparel Trade Act of 1987 has been introduced in an effort to provide a minimally acceptable solution to our industry's problems. This bill provides for annual growth in apparel and textile imports of one percent, a growth rate commensurate with the long term trend in domestic consumption.

It does not call for import cutbacks, even for the largest shippers.

It allows the administration flexibility in implementing quotas within the 1 percent global limit.

The bill also provides for a report to Congress by the Secretary of Commerce after 10 years, thus providing for a review by Congress itself.

And lastly, this bill provides for tariff reductions to compensate exporting nations for the imposition of quotas.

These provisions are fully in accord with the MFA and the GATT.

Low cost imports threaten our living standards, particularly those of low income groups, by destroying badly needed employment opportunities.

We urge you to give careful consideration to the Textile and Apparel Trade Act of 1987. It will establish a more rational and reasonable approach to our trade in apparel and textiles.

But we also ask that you act promptly and forcefully. There is an urgent need for action to avert the scenario I have described and prevent the destruction of our industry and hundreds of thousands of jobs.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Before the Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives

STATEMENT
OF
JAY MAZUR, PRESIDENT
INTERNATIONAL LADIES' GARMENT WORKERS' UNION, AFL-CIO
MAY 18, 1987

This statement is submitted on behalf of the International Ladies' Garment Workers' Union, AFL-CIO. Our Union has some 200,000 members employed in the production of women's and children's apparel, accessories and related products. Our members live and work in more than two-thirds of the states spread across our nation.

I am here today in support of H.R. 1154, the Textile and Apparel Trade Act of 1987. The survival of our industry and the jobs of nearly 900,000 garment workers depend on its passage into law. In the course of my testimony I will highlight the flawed policies of our government and the repeated failure of its apparel-textile trade program.

Never in its long history has the future of our industry seemed so bleak. Apparel imports continue to rise relentlessly and represent an ever growing share of our domestic market. Garment plants across our nation are curtailing production or closing down altogether and thousands of workers are losing their jobs. Legislation is the only recourse if a major American industry is to be kept from total elimination.

Unless forceful action is promptly taken by the Congress, the American apparel industry faces extinction in the very near future. This dire prediction is not ours alone, but is shared by the Office of Technology Assessment, an agency of the Congress itself. A just-released OTA report, The U.S. Textile and Apparel Industry, A Revolution in Progress, predicts that by the year 2000 there will be no domestic apparel production in the United States and that two-thirds of textiles will be imported. As dire as that prediction may seem, in our judgment it is overly optimistic.

The ILGWU has also made projections on the fate of the domestic apparel industry. We estimate that overall imports of apparel accounted for 55.3 percent of domestic consumption in 1986. Imports of women's and children's apparel represented closer to 60 percent of the domestic market. To project that penetration figure forward we used the historical trend in apparel imports and consumption.

Between 1980 and 1986, imports of apparel, including garments made of silk and vegetable fiber, rose at an annual rate of nearly 15 percent. In women's and children's wear, the corresponding growth rate was 15.5 percent per year. For the purposes of our projection we have assumed a continuing growth rate in apparel imports of 15 percent per year.

The long term growth in apparel consumption (measured in quantity) has ranged around one percent per year. We used one percent as the basis for our projections.

If these trends continue, and they are likely to do so in the absence of Congressional action, the ILGWU projects that apparel import penetration will reach 63 percent in 1987, 72 percent in 1988, and 82 percent in 1989. By that time -- only three years away -- the domestic industry will, for all intents and purposes, have lost its viability. By 1990, import penetration will reach 93 percent. At best, a shell will remain consisting of firms doing all their production abroad with little more than sales activity remaining in the United States.

The major impact of the scenario I have just outlined will be felt by the U. S. garment workers. By 1989, the number of production workers in the apparel industry will drop to 378,000, a decline of over 500,000 workers from current levels.

By 1990, the number of production workers in the apparel industry will have dropped 84 percent from 1986 levels. Fewer than 150,000 workers will be involved in apparel production. In women's and children's wear, the number of production workers will be 75,000 or less.

Even if import growth could be held to 6 percent a year, the growth rate allegedly sought by the U.S. government, the demise of the domestic apparel industry will merely be delayed for a few years. By 1994, the penetration rate for imported apparel will exceed 81 percent and the domestic industry will no longer be viable.

The full severity of the projected cutbacks will be felt throughout our nation. It will affect a whole series of other industries and the financial viability of many communities.

Many of the major apparel production centers in the nation will disappear. Small communities across the nation will lose their already tiny manufacturing base, the chief mainstay of many a local economy. Support activities will be curtailed in large and small communities alike. Purchases of domestically produced fabric and supplies will shrink. The lost purchasing power of displaced garment and textile workers and their families will seriously hurt retailers and service providers in the affected areas. Economic growth, historically based on increasing consumer expenditures, will be curtailed. Tax revenue will be seriously impacted.

The displaced garment and textile workers will constitute our own "third world". In fact, they already do. Approximately 80 percent of the garment industry work force is female and is older, on the average, than that of other industries. Many garment workers are recent immigrants with little command of the English language. Many have minimal education. Many are members of minority groups. Most have few opportunities for alternative employment, whether in urban centers or in small, rural communities where little industry can be found.

So far I have primarily addressed myself to the future of our industry, which already has less than half of our own American market. I would now like to deal with some of the remaining issues -- how did our nation arrive at this critical juncture and what can be done to remove the death sentence that has been placed on our industry.

The American garment industry and its workers are caught between two fires. On one side, importers and retailers seek ever increasing imports in the pursuit of profit with no regard for the damage done to the U.S. industry and its work force. On the other side, our uncaring government not only stands by and fails to act to prevent the disruption of our markets but actively works to destroy American jobs and job opportunities. We believe that American workers have a right to expect their government to be on their side.

Time and again, the ILGWU has spoken out against the failure of U.S. government policy and action. Year after year our opponents in and out of government told us how well we were doing, how some new government action was finally going to help us. Each time we warned that the proposed actions were too little and too late. And, each time history proved we were right.

Our industry is often said to be over protected. There is, of course, a considerable body of law and international executive agreements that could permit the United States to take appropriate action to truly regulate apparel and textile imports. Since 1973 the United States government has been a signatory of the Multifiber Arrangement (MFA) and bilateral agreements under the MFA have been negotiated with the major apparel exporting nations. However, in all the years since 1973 the United States government has failed to act as it could have to prevent our domestic industries from being dismantled by foreign production.

Other nations -- the European Community, for example -- have worked within the confines of the MFA to severely limit imports and to maintain reasonable levels of domestic production in their apparel and textile industries. But our government has not seen fit to do so.

When MFA I was negotiated in 1973, the import share of the domestic apparel market was 21 percent. Today, after 13 years of MFA, the import share is 55 percent and climbing rapidly.

Between 1980 and 1986, imports of apparel made of cotton, wool and man-made fibers increased 101 percent (measured in square yards equivalent). And, if account is taken of the huge rise in garments made of fibers not subject to any controls until August 1986, such as silk, ramie and linen, the rise in apparel imports since 1980 is over 119 percent.

Had domestic consumption grown proportionately, the problem we face would be of considerably lesser magnitude. Unfortunately, this has not been the case. Apparel consumption in the United States has grown historically at about one percent per year, only a fraction of the pace of imports.

Often used along with the charge that our industry is over protected is the equally false contention that our industry is in a boom. What a cruel hoax it is to describe an industry that is rapidly being decimated and reduced to but a shell of its former self as being in a boom.

The flood of imports has taken a severe toll on job opportunities in our industry. In 1973, when MFA I was first negotiated, over 660,000 production workers were employed in the manufacture of women's and children's wear in our country. In 1980, the number of jobs was down to 577,000. By 1986, only 494,000 such jobs remained on employer payrolls, a decline of 25 percent under the supposedly protective aegis of the MFA.

The employment decline in our industry is all the more shocking in the light of the 14 percent increase in population that has taken place in the United States since 1973. Relative to population, employment in women's and children's wear has lost ground by over 42 percent since the MFA I was negotiated.

The only boom in apparel is among importers and retailers. Some apparel firms are erroneously thought of as domestic apparel manufacturers even though they import most, if not all, of the merchandise they sell.

The pervasive destructive impact of apparel imports has hit many parts of our nation. Even the sun-belt, which some years ago had been showing growth, has been hard-hit in recent years. Of the 25 top apparel producing states in the nation, only two -- California and North Carolina -- show increases in employment between 1980 and 1986. In the other 23 apparel states, job losses ranged from 0.4 percent to 31 percent.

(Michigan has a sizeable employment in Standard Industrial Classification 23, Apparel and Related Products, but is excluded from the tabulation since most of the employees are engaged in production of automotive upholstery and trimmings. Its apparel employment alone is too small to place it in the top 25.)

ALL EMPLOYEES, APPAREL INDUSTRY, 25 LEADING STATES, 1980-1986
(arranged by percentage of decline)

State	Employment(000's) 1980	Employment(000's) 1986	Percent Change
Illinois	22.6	15.6	-31.0%
Massachusetts	39.8	27.7	-30.4%
Texas	74.8	52.6	-29.7%
Maryland	15.3	10.8	-29.4%
Louisiana	11.0	7.8	-29.1%
New York	169.3	126.8	-25.1%
Pennsylvania	124.1	93.3	-24.8%
Connecticut	10.8	8.5	-21.3%
Arkansas	13.4	10.7	-20.1%
New Jersey	55.7	45.1	-19.0%
Missouri	29.9	24.5	-18.1%
Oklahoma	11.1	9.5	-14.4%
Indiana	10.9	9.5	-12.8%
Virginia	34.3	30.2	-12.0%
Mississippi	40.9	36.8	-10.0%
Tennessee	69.4	64.6	- 6.9%
Florida	34.1	32.1	- 5.9%
Georgia	72.3	69.8	- 3.5%
South Carolina	46.4	45.0	- 3.0%
Ohio	17.1	16.6	- 2.9%
Kentucky	27.4	27.0	- 1.5%
Wisconsin	6.5	6.4	- 1.5%
Alabama	53.9	53.7	- 0.4%
North Carolina	88.0	88.9	+ 1.0%
California	106.5	113.2	+ 6.3%

Source: State Labor Department reports.

The approach of successive administrations, particularly the present one, to regulation of apparel and textile imports has clearly failed. Among the elements that must be dealt with are the diversification of production in the major exporting countries, the proliferation of foreign supply sources and the speed with which foreign shipments can be increased. The piecemeal administrative approach to regulating imports amounts to a never-ending, ultimately futile process of catch-up.

Indeed, considering that there are more than 150 fiber specific MFA product categories and that more than 150 countries ship apparel and textile products to the United States, there is a vast universe of possible quotas.

All too often quotas were not introduced until imports rose to extremely high levels. In all too many instances the Administration has moved very slowly. And when finally negotiated by our government, import ceilings have been excessively generous and were permitted to increase further, usually by considerably more than the six percent a year cited in MFA I.

Even where quota growth is kept under six percent, unusually generous initial restraint levels are permitted. This provides for very high base levels from which to subsequently expand by what is claimed to be "reasonable" growth rates.

The fundamental problem is that in implementing the MFA the government's focus seems to be on limiting marginal quota growth rather than in restraining the volume of import shipments by setting quotas at reasonable levels in the first place. Regulating imports is transformed into a charade if the effective import growth is far above growth limits compatible with the avoidance of market disruption.

Furthermore, our government's policy is to treat each country as a separate entity, ignoring the additive affects on total imports. Small increases can clearly add up to very large gains, particularly with so many countries exporting apparel to the United States.

It is contended by the Administration that a large percentage of all imports from low-cost suppliers is covered by quota. The critical fact, however, is that the present import penetration level is dangerously high. Even with a quota in existence, substantial import growth is still possible since quota levels often are greater than current shipping levels. Quota ceilings also continue to increase even where shipments fall well below the restraint levels.

The bilateral agreements also contain provisions that allow quota levels to be exceeded, provided that a reduction in square-yards-equivalent (SYE) is made in one or more other categories. Quota may also be borrowed from future years, and unused quota carried forward. These provisions heighten the potential for sudden large import surges, a critical element in disruption of our domestic market.

Going beyond the agreements themselves is the problem of excessive imports coming as a result of evasion, transshipment, and fraud. Cutbacks in the nation's customs staff and ability to inspect only a tiny portion of incoming shipments have opened the door to wholesale violation of the already weak agreements our government has negotiated.

The available data make it evident that major damage has been done to the domestic industry and its workers by errors of commission and omission in the negotiation of bilateral agreements, calls and enforcement.

The original MFA recognized a six percent a year growth rate in bilateral agreements. Subsequent renewals accepted the need for lower growth rates for sensitive items. However, despite the ability to control import growth at rates much closer to domestic consumption than six percent a year, apparel imports have not only exceeded the six percent mark but have been rising dramatically.

INCREASES IN APPAREL IMPORTS, 1980 - 1986 (SQUARE YARDS)
(cotton, wool and man-made fiber only)

1980 - 1981	+ 8.7 %
1981 - 1982	+ 7.9 %
1982 - 1983	+ 14.6 %
1983 - 1984	+ 21.7 %
1984 - 1985	+ 8.5 %
1985 - 1986	+ 13.3 %

Comparable data on imports of garments made of silk, linen or ramie are not fully available. However, even the partial data indicate that garments made of these fibers, previously uncontrolled, grew astronomically. Were the data included along with those for the three previously covered fibers, the recent growth rates would be significantly higher than shown above.

Growth rates for apparel imports from individual countries have been more outrageous than even the world totals suggest. Major shippers continue to dominate the market while newer entrants have shown spectacular growth. For example, consider the following apparel import growth rates between 1980 and 1986: Taiwan 50 percent, Hong Kong 37 percent, South Korea 41 percent, China 323 percent, Indonesia 2967 percent, Singapore 155 percent, India 78 percent, Malaysia 572 percent, Sri Lanka 220 percent, Pakistan 345 percent and Thailand 138 percent.

In 1986, when our government claims so much restrictive activity took place, individual country shipments continued to soar. To cite a few examples, shipments from China rose 67 percent, Turkey 51 percent, Indonesia 46 percent and the Dominican Republic 31 percent .

So far in 1987, imports are continuing to soar. For the first two months of the year, imports of cotton, wool and man-made fiber apparel are up 12.7 percent over the same months of 1986. Imports from China, now the largest exporter to the United States, are up 53.4 percent in this two month period. The Bureau of Customs reported as of April 23 that 1987 quotas for 13 categories of goods from China were already filled and that many more were close to being filled.

While apparel imports have been soaring relentlessly over the years, domestic ouput has been falling. The ILGWU Research Department compiles a series on physical volume of output of women's and children's garments based on U.S. Department Commerce production data. Between 1980 and 1986, physical output (measured in 1967 dollars) declined from $9,288 million to $7,700 million, a drop of 18 percent. This was a period during which imports were more than doubling.

Import penetration has reached utterly unacceptable levels in numerous major items of women's apparel. Imports account for approximately two-thirds of domestic consumption of sweaters, cotton coats and many types of blouses and knit shirts. Many other product areas are also marked by extraordinarily high import penetration, including brassieres, rainwear and cotton slacks and skirts.

In such other product lines as dresses, playsuits and man-made fiber nightwear and underwear, where imports have traditionally played a less significant role, astronomical import surges of 40 to 50 percent or more annually have been experienced in the last two years. In short, the entire spectrum of women's apparel has been seriously undermined by an unrelenting wave of imported goods.

The Textile and Apparel Trade Enforcement Act was introduced in the last session of the Congress in an effort to restore order to the U.S. apparel and textile trade and to prevent further harm to the domestic industry. Some who opposed that legislation may have done so in the belief that legislative action was no longer needed -- that a renewed MFA and a sagging dollar were remedy enough. How wrong they were!

The MFA renewal in 1986 was but one more illustration of the unwillingness of the United State Government to take decisive action to help our industry. Other than a partial coverage of previously uncovered fibers, MFA was left in an unchanged or even weaker condition than before. And our government showed no signs that it would change its policy and use its existing authority to adequately control apparel imports.

A significant reduction in the value of the dollar has taken place relative to the currencies of Japan and the countries of the European Common Market. These countries, however, are not the key apparel shippers to the United States. Japan accounts for less than 2 percent and the entire Common Market group for barely 3 percent of our imports of clothing. In contrast, the dollar has risen in value or remained at the same level as against the currencies of the key nations that export apparel to the United States, whether in the Far East or the Caribbean.

Only legislation can mandate that our government act in defense of the clothing and textile industries and their workers. If comprehensive trade legislation such as H.R.3 could be effective in industries such as ours, there would be no need to seek industry-specific legislation. Unfortunately, the remedies offered by H.R.3 have very limited application to such labor-intensive industries as ours.

There is little need for countries to sell clothing in the United States at less than cost. The terribly low wage rates paid in most of the clothing exporting nations permit the undercutting of U.S. costs even without benefit of subsidy. Hence, the barring of such unfair trade practices does little to level the playing field for apparel trade.

Similarly, foreign barriers to U.S. exports have little significance to the welfare of the domestic apparel industry. The overwhelming share of our exports consists of cut garment parts leaving the country for sewing abroad under Item 807.00 of the Tariff Schedules.

The problem we face is not a lack of competitiveness in design or productivity but an inability to compete with the abysmally low wages and sweatshop labor conditions in countries that are the major shippers of apparel to the United States.

Provisions dealing with labor conditions and practices in foreign countries are sound in theory, but unfortunately are slow acting remedies. Given the timetable for the destruction of our industry, far speedier remedies are essential.

Lastly, there are relatively few jobs apparel workers can be retrained for. Most labor-intensive jobs for which garment workers could be retrained have similarly been destroyed or are in the process of destruction by foreign sourcing.

No matter how effective comprehensive legislation may be in dealing with the international trade problems of other industries, it cannot solve our problem. We need industry-specific legislation.

The Textile and Apparel Trade Act of 1987 was introduced in an effort to provide a minimally acceptable solution to our industries' problems. In drafting the new bill's provisions, its supporters have taken into account some of the objections raised to last year's legislation .

The new legislation now covers all countries. Exclusions in the prior bill had led to charges of bias against non-white countries. The charge was groundless, but the new bill removes any doubt about intent.

The 1987 bill provides for a one percent growth in imports each year in each textile and apparel category, commensurate with the historic growth in domestic consumption. The base for each category is the level of 1986 shipments. There are no cutbacks, even for the largest shippers.

The President can allocate to each exporting nation from a global quota as he sees appropriate, taking into account the needs of the United States and the individual countries.

Lastly, the bill provides for a 10 percent reduction in duty to compensate the exporting nations for the imposition of the quotas.

These provisions are fully in accord with the provisions of the MFA and the GATT.

Low-cost imports threaten our living standards, particularly those of low income groups, by destroying badly needed employment opportunities for the U.S. apparel workforce.

Sixty percent of apparel imports now originate from just four sources: Hong Kong with an applicable wage rate of $1.18 per hour; Taiwan at $0.57; South Korea, $0.63; and China, where a garment worker earns the U.S. equivalent of $0.16 per hour. Wages are similarly low in such other Asian countries as Indonesia, Malaysia, Sri Lanka, Thailand and the Philippines, all of which continue to boost garment shipments to the U.S.

Despite the grand assumptions of theoretical economists, the use of low-wage labor abroad in garment production does not translate into lower prices paid by consumers. Retailers acknowledge they prefer to sell imported garments because of the higher markup taken on imports than on domestically produced goods. To cite just one of numerous examples: when asked by Women's Wear Daily whether retailers are really buying markups when they purchase imports, Allied Stores president Thomas M. Macioce responded, "Sure, we are indeed buying better markup, but that's our job. We would be delighted to buy only American-made goods if we could make the same type of markup".

Invariably, imported garments retail for the same price, and some times at an even higher price, than U.S.-produced items of precisely the same design and style, with the difference padding someone's profits.

While the garment industry shares many problems with other industries, its simple technology, small capital requirements and dependence on relatively low-skilled labor make it particularly vulnerable to imports from low-wage countries. Recognition of this acute vulnerability to low-cost imports was an important justification for the special treatment that MFA accorded to the apparel and textile industries under the auspices of the General Agreement on Tariffs and Trade.

We must address the severe apparel and textile import situation before it is too late. The domestic apparel industry is unique and requires unique solutions to its trade problems. General approaches are not equal to the task.

Unlike so many others, our industry employs large numbers of women, minorities, immigrants and so many others for whom few alternative employment opportunities exist. The work force in our industry includes many individuals with limited education and English language skills. These workers have very little opportunity for geographic mobility or retraining.

In many senses -- for example, the predominance of women, ethnic origins, and low skill levels -- U.S. garment workers are similar to their counterparts in third world exporting countries. As a diverse society we have a collective responsibility to ensure that our economy provides a full range of job opportunities.

The only way in which we might "compete" with exporting nations is to drop our wage levels to that of such nations. If this would happen -- and I don't believe it will -- we will no longer have the American living standard for which workers have fought for centuries.

Massive increases in apparel imports have made obsolete the government's approach to implementing MFA -- if it ever truly reflected domestic needs. We urge you to give careful consideration to the Textile and Apparel Trade Act of 1987 in the interest of developing a more rational and reasonable approach to our trade in textiles and apparel. But we also ask that you act promptly and forcefully. Only your action can insure that our industry will remain a viable part of the American economy.

Chairman **Gibbons**. Thank you, sir.

Let me say I appreciate your working with us to try to develop some viable figures. The employment figures I have, which are Department of Commerce figures, show that in the apparel industry, our employment in 1976 was 1.3 million and in 1986, the last full year, was 1.1 million. It appears that in the first quarter of 1987, it was 1.1 million.

Now, do you agree with those figures?

Mr. **Mazur**. Herman?

Mr. **Starobin**. No, we don't, Mr. Chairman, and we don't because the figures show that in 1973, talking about production workers only, there were 1,240,000. The latest figures for the end of 1986, in terms of production workers only, was 893,000. The source for this, Mr. Chairman, is the Bureau of Labor Statistics of the Department of Labor.

Chairman **Gibbons**. Well, in other words, the Department of Labor has one set of figures and the Commerce Department has another set. Is that the problem?

Mr. **Mazur**. That may be true. As Dr. Starobin indicated, it may be due to the fact they weren't broken down in production workers and those outside of the area of production, other workers who were not production workers. The major loss has taken place over the last 10 years among production workers.

Chairman **Gibbons**. Well, I am having some trouble, even with those figures. I have got the figures that staff tells me you supplied them on production workers totaling nine industries. You show for 1986, 494,000 workers. Am I to understand that the rest of those workers we have got here are not production workers?

Mr. **Starobin**. No. I think, Mr. Chairman, we are talking about two different things.

Chairman **Gibbons**. That is what I am trying to figure out. This is tough enough, even when you have got the right figures, even when you understand the figures, it is tough enough. I don't understand the figures.

Mr. **Starobin**. The data that we gave your staff related to nine industries or subindustries within the women's and children's garment industry and I think it is so titled on the top.

Chairman **Gibbons**. Well——

Mr. **Starobin**. It is for those nine industries that BLS collects detailed data. So the total on the last page of that collection of data shows the total for nine industries.

Chairman **Gibbons**. You don't have men's garment workers, you don't have—you just are covering ladies' clothing, is that right?

Mr. **Starobin**. In that particular set of figures, yes sir.

Chairman **Gibbons**. I see. So this particular set of figures, these are only ladies' clothing?

Mr. **Starobin**. Yes.

Chairman **Gibbons**. And so, well roughly half of the people are in men's and half are in ladies?

Mr. **Starobin**. It may be 60–40, I think.

Chairman **Gibbons**. Sixty percent in men's?

Mr. **Starobin**. Sixty in women's and 40 in men's.

Mr. **Frenzel**. That is fair.

Mr. STAROBIN. Mr. Gibbons, the 1,240,000 figure to which you made reference, is total apparel. The figure we also have from BLS relates to production workers only. In 1973, this was 1,240,600, and at the end of 1986 it was 893,000. It had dropped further slightly less than 10,000 in the month of January of this year.

Chairman GIBBONS. Well, I don't know whether any of you were present when one of the earlier witnesses—I have forgotten who it was—said that we really have got two industries here, we have got a textile industry and we have an apparel industry. With the textile and apparel industry working together, the apparel industry gets the short end of the protection.

Mr. MAZUR. If I could respond to that. They are separate industries, but they are interrelated, they are intertwined.

Chairman GIBBONS. They are interrelated?

Mr. MAZUR. Interrelated in a very meaningful way. Forty percent of textiles sold in this country are for apparel. We can distinguish between them in some ways. The relationship is too strong to separate them in a total sense.

Chairman GIBBONS. Every figure I see tends to point out that you have got an industry that is impacted heavily economically, for example in employment, but when you separate the textile sector out by itself, they are doing pretty well. They are able to automate to a greater extent than the garment industry and they can compete internationally better than your people because of the fact that they can automate more. It looks to me as though that is what is happening. It appears to me that the textile industry sort of hides under the skirts of the garment industry for its protection.

Mr. MAZUR. We don't think so. We think that the textile industry has been impacted. While we recognize that they had a good 1986, we also recognize that there are far fewer textile firms producing what many hundreds more textile plants produced previously.

We recognize that they have made many millions of dollars in significant capital improvements, and also they have had a number of very bad years. We recognize those things, but don't believe they can or should be separated, and that if the apparel industry had a better year than the textile industry in 1986, their position would be the same. The two industries are inextricably bound up with one another and, in most countries of the world, that is also true.

If you destroy the apparel industry, 40 percent of textile mill production would go under.

Chairman GIBBONS. I realize you are much closer to the apparel industry than I am, and understand it better than I do, but it doesn't appear to me that the apparel industry is going out of business. You had about a 200,000 drop in employment, or roughly 20 percent drop in employment in 12 or 13 years.

Mr. MAZUR. It is essentially more than that, Mr. Chairman, if I may suggest that.

Chairman GIBBONS. That is the problem. I have got a 1.3 million versus 1.1 million, that is about a 200,000 job drop. That is no insignificant amount, but that is not going out of business by any means.

Mr. MAZUR. Our figures seem to—are substantially different than those you just indicated. There has been a significant loss of apparel jobs over the last 10 years. Probably closer to half a million than 200,000. You are also dealing with a reduction in many cases of wages, competitive factors. Apparel workers here are the lowest paid manufacturing workers. So there are other factors, and that is one, you have lower wages, garment workers probably make less today than 10 years ago in absolute wages, and they are working less weeks and less hours.

If you put that together, you have a serious situation. Bottom line, you are talking about a 55-percent penetration during a period when the population of this country has increased by 14 percent since 1973, so that we are not getting the benefit of the increased population. The number of workers employed in the industry has been substantially reduced, wages are lower, competition is keener within the domestic market, and our workers are not getting the benefit of the imports.

Chairman GIBBONS. The highest penetration I have from Department of Commerce figures here for apparel is 26.2 percent, measured in dollars; 33 percent measured in square yard equivalents, and measured in pounds of fiber, it is 25 percent.

Now, why—where do you—I have to assume we are all working off the same base.

Mr. MAZUR. Yes.

Chairman GIBBONS. Why do you keep claiming a higher percentage of penetration?

Mr. STAROBIN. I think there are a number of reasons, Mr. Gibbons. No. 1, simply an observation, stores that sell apparel show an even higher import figure than the one that we have suggested. It would suggest that our figure is a very conservative one.

I think, secondly, there is a question of methodology. We do not agree with the methodology used by the Department of Commerce because it does not measure apples and apples, it measures apples and oranges.

In our methodology, which we turned over to your staff about a half-hour ago, we suggest that the point of measurement should in fact be when the products enter the market, namely at the wholesale level, and then you are comparing apples and apples. Our methodology, therefore, shows a higher rate of penetration than what the Department of Commerce suggests.

On poundage, we don't think that that is a measure of most anything.

Chairman GIBBONS. I agree. I think poundage is frivolous.

Mr. STAROBIN. With square yard equivalents, there are also problems because this relates to what garments we are talking about. We have tried in our methodology, which was reviewed by the Office of Business Economics of the Department of Commerce 20 years ago, and found to be without fault, to measure them at the point at which they enter the market, namely at the wholesale level.

It is a rather complex methodology for obvious reasons.

Chairman GIBBONS. I agree, it is complex. I hope I live long enough to understand these figures. We all start, I guess, with the same Bureau of Census figures, and you come out with a 52-percent penetration——

Mr. STAROBIN. We come out with 55 at the end of 1986.

Chairman Gibbons. I won't quibble over it. And the highest the Government figures indicate is 33 percent on square yard equivalence. And we also don't agree on the number of people that are employed in the industry and how many of them have lost jobs, either. I am not belittling you or anything else, I am just expressing my frustration with the figures. Hopefully, we can get the experts to go and finally come up with the same set of figures, because I don't think you are going to go out of business. I know you do have problems.

Mr. Mazur. The Office of Technology Assessment seems to agree. That is a Government agency set up by Congress. They predict that we will be out of business within a short number of years. This is their study—I assume that the committee has had an opportunity to look at that.

Chairman Gibbons. It has been suggested that we perhaps should hear from them and I think it is a good suggestion.

Mr. Mazur. It appears to me that this is as objective a study as you can find. I did not participate in that study. They undertook that study as part of their congressional responsibility and have come up with a very startling observation; namely, the industry will be out of business by the year 2000, that the only thing that will save the industry is limiting the import of textiles into the U.S. market.

That is consistent with our position and has been for the last 10 years. The growth rate has been increasing at an increasing rate and either empirically or by an examination by people like Herman Starobin have indicated that the growth rate is in excess of 50 percent and growing. Every indication suggests to us that one-third is a terrible, terrible understatement and I question not only the methodology but also the reasoning behind it.

I think it goes beyond methodology. I think it is a deliberate attempt to obfuscate the tremendous impact of imports into this country. If we look at the growth rate from 1980 to 1986 from South Korea, 41 percent; from Hong Kong, 37 percent; from Taiwan, 50 percent; from Singapore, 155 percent; Thailand, 138 percent; and in Indonesia, 2,967 percent; 572 percent in Malaysia. And in 1 year the increase, and this is the most startling, Turkey alone in 1986, a 51-percent increase, Indonesia, 46 percent, and the People's Republic of China—their growth rate is 65 percent in 1 year.

To us that indicates clearly that we are talking about a decline in the industry of substantially more than one-third and at that rate we suggest to the committee that there will be no industry within 5 years.

Mr. Frenzel. Will the chairman yield?

Chairman Gibbons. Yes. These figures are baffling.

Mr. Frenzel. The gentleman referred to this OTA study and indicated that he had nothing to do with it. Do you have a chap by the name of James A. Parrot?

Mr. Mazur. Yes.

Mr. Frenzel. He is apparently listed here as one of the reviewers. I don't know what the resources are, but they seem to be all associated with the textile industry and I assume they provide expert advice.

There is a Henrietta Dafmey from Amalgamated, a chap from the School of Textiles, one from DuPont, one from the University of North Carolina, American Textile Manufacturers Institute—the report calls them reviewers.

I don't know what it means, but I assume you had a peek there.

Mr. MAZUR. I think we were shown the report after it was finished. I think it showed good judgment on the part of the office to seek out people who were expert in the area and who could lend technical advice. The people you named I know and they had nothing to do with undertaking this study or its findings.

Mr. FRENZEL. I thank the witness and thank the Chair for yielding.

Chairman GIBBONS. Mr. Jenkins.

Mr. JENKINS [presiding]. I thank you for your testimony and for your trying to get help for the industry. I might comment about some of the figures that Chairman Gibbons was referring to. So often I see figures of the overall textile industry, and of course, they will include such items as carpets, for instance, as a textile product, where we do not have a great deal of import penetration.

That happens to be a very important segment of my congressional district's economy, but the facts are that as of the present time, even though carpet is included in the textile figures, they are, as far as a percentage of market share, small in terms of import penetration.

Now, it is getting worse and worse each year, but for obvious reasons when we look at the textile problems we tend to look at apparel and apparel fabric.

Another reason of the differences I see between the figures as pointed out by the chairman, when he is looking at 33.1 percent penetration, those figures do not include apparel fabric at all. And whether one includes apparel fabric, even under these figures, which are less than your figures, they then go from 33 percent to 48 percent—so a lot of the so-called inconsistencies can be addressed if we look to see what the components are in the figures.

But it doesn't take any great study in my view since as a father of two teenage children that occasionally goes to the department store with them, to recognize that when you go through the apparel in a department store, particularly in ladies clothing, it is very difficult to find garments that are made in the United States, and that has been growing substantially in the past 5 years.

Mr. MAZUR. There is another way of telling. If we looked at the number of factories that have been closed from one end of this country to the other, all we have to do is subtract the number of starts and those who have gone out and see, without benefit of any scientific observations, that the figure of 55 percent is probably conservative.

I use 55 percent for the total industry, but Herman says he thinks it is closer to 60 for the women's and children's industry. But we don't want to be accused of being alarmists. If you look at the number of factories that have closed in the South and Southeast—we are talking about firms where we have members and where we do not. They are going out of business as well. In equal number. That is a clear indication beyond the more sophisticated approach that has been taken.

Mr. **Jenkins**. I think that is another factor that is overlooked. Is it not true that many times when you have two plants in a small town both at 60-percent capacity, one is closed and the other is at 100-percent capacity for the following year, then suddenly the figures and proponents of the bill say, look, you are at 100-percent capacity, you are at 100-percent capacity because you have shut down some plants; is that correct?

Mr. **Mazur**. That is correct.

Mr. **Jenkins**. That is like sticking one foot in a tub of ice water and another in a tub of scalding water and it should average out to make you feel good, but it doesn't always do that.

Mr. Pease.

Mr. **Pease**. Thank you, Mr. Chairman.

I appreciate the testimony. I would like to ask a couple of questions. In your testimony in the third paragraph you say never in its long history has the future of our industry seemed so bleak.

When you use the term "our industry" in that paragraph and subsequently, are you referring to the women's and children's garment industry or the garment industry as a whole or the garment and textile industries taken together?

Mr. **Mazur**. This reference specifically is toward the women's apparel industry, women's and children's apparel.

Mr. **Pease**. Women's and children's together?

Mr. **Mazur**. Yes, but that is not to suggest that the others are doing well. We may believe that we may be doing worse and their penetration may be a percentage or so less than ours, but collectively we are all in the same boat.

Our side of the ship is sinking faster, Mr. Congressman.

Mr. **Pease**. A previous witness from Levi Strauss Co. told us that 90 percent of their jeans are made from American textiles and fashioned in America, in the United States. I would assume that half or more of Levi Strauss' production would be in women's jeans. Do they qualify as women's apparel in your opinion?

Mr. **Mazur**. I think they do both. I am not familiar with whether they do more men's or women's. The jeans business has lent itself to unisex and to a large extent those making jeans make both men's and women's. This is one of the few areas in the apparel industry, those which make ladies' suits don't make men's suits. When it came to jeans, others like Calvin Klein and others do both. Structurally, there are differences, but in that instance, many jeans manufacturers are able to work both male and female.

Mr. **Pease**. Apparently Levi Strauss does not believe that it is in any danger of going out of business producing jeans for men and women in the United States.

Mr. **Mazur**. I didn't hear their testimony, but that may well be true. I would think there are such companies even today—I am not suggesting that every company in America is about to go out of business. Even in the depression some people and companies did well. Our judgment is based on the industry generally and we would have to say that very few companies are doing well, those who are producing domestically, that is.

Mr. **Pease**. In your testimony you do say legislation is the only recourse for major American industries to be kept from total elimination. You would not—you probably want to retract that a little bit, wouldn't you?

The third paragraph, the last sentence?

Mr. **Mazur**. I wouldn't retract that, Congressman.

Mr. **Pease**. You would not?

Mr. **Mazur**. No. I think that while there may be other remedies in addition to legislation, in the absence of legislation, I see no possibility of survival.

Mr. **Pease**. You think that even Levi Strauss will be eliminated?

Mr. **Mazur**. Yes. Some years ago when I was talking to a group of manufacturers who felt that importing would not affect them because they were able to produce in this country. They have changed their minds. They thought the major retail stores would come to them after they did the importing. What happened is that the major department stores have eliminated the manufacturer and gone overseas directly. It would be my observation, a guess at best, but if all holds true in the pattern, ultimately Levi Strauss would be affected as well. That is correct.

It may have something to do with the fabric and design, but I believe ultimately there will be very few companies in America producing apparel if, over the next 5 years, no legislation is enacted, that wouldn't be affected. In varying degrees, of course.

Mr. **Pease**. In the first paragraph of your testimony you say your union has some 200,000 members employed in the production of women's and children's apparel. In the next paragraph, you mention that the survival of your industry and the jobs of nearly 900,000 garment workers depend on its passage into law.

Do I take it from that that 200,000 out of 900,000 are unionized or members of your union?

Mr. **Mazur**. No.

Mr. **Pease**. Are those comparable—are we talking about apples and apples here or not?

Mr. **Mazur**. No. I can explain that. The 200,000 figure includes men's and women's and children's apparel in the United States. I think that between the Amalgamated Clothing Workers and us, we have between 425,000 and 450,000 members. There are 900,000 production employees in the U.S. producing garments and we use the word garment to include both men's and women's in its broadest sense.

Mr. **Pease**. Certainly, if you go into a department store, into the women's and children's departments, you find an awful lot of imports. In fact, it is difficult to find American made products in those departments. I find the same is not so true of the men's department, particularly men's suits, where American manufacturers seem to do somewhat better.

Mr. **Mazur**. We agree with that, but we think, as Congressman Jenkins observed that we are worse off than they are—but I take no comfort in that. The fact is their penetration we estimate to be—maybe ours is closer to 60 and theirs is closer to 45 or 50. The trend is very clear, and the trend is increasing at an increasing rate. This is so because of the structuring of men's apparel, because of the price factor, and the cost of a suit. It has taken longer for them to be affected.

When I look back—and I have been an officer of ILG for 36 years—I recall when there were those within our own industry making ladies suits, very expensive suits. Many felt that these suits could never be made overseas. When we were then talking about the $1 blouse and cheap pants this no longer obtains.

What is evolving in the men's wear industry is the same process, except they are somewhat behind. They may be 3 or 4 years behind, but within 5 years, they will experience the same problem and to the same degree as we have. Those exporting nations will be able to do whatever we do here, and for substantially less.

The People's Republic of China, in 1 year, increased their exports into our market by 67 percent. They use our styles, our methods of production and everything else. We bring everything there, they make it, and send it back to us. Our workers are displaced and the consumer does not get the benefit of the huge profits that are being reaped by importers.

Mr. PEASE. I think that is an interesting observation on the behalf of American multinational corporations. They don't seem to have a great deal of loyalty to the United States or to American workers.

Mr. MAZUR. Most of these firms are not multinational, but very large department store chains. But I agree with your conclusion. They are in the pursuit of profit. I listen to a lot of testimony and read the papers and I would suggest that what we really are talking about is protectionism—protectionism of profit, whether it is the shoe industry or elsewhere. I was aghast at the testimony of one of the people who was testifying here today. He indicated that he didn't think the profit was greater producing in Brazil. I just came back from Brazil. I would suggest that the wages of a Brazilian worker are less than one-fifth of an American worker.

In apparel, when you take the People's Republic of China, you are talking about 16 cents an hour. If you went to a store, you would find the consumer does not get the benefit and you are talking about protecting profits.

Mr. PEASE. Much has been made recently about the drop in the value of dollar vis-a-vis other countries. Would you anticipate that that change in the exchange rates will have an impact at all on the level of imports into this country?

Mr. MAZUR. None whatsoever, for two reasons. One is because of low wages. The disparity is so great. If one knows that in Taiwan the average wage for an apparel worker is $1.39 and in Hong Kong, it is the magnanimously high sum of $1.62, and when we talk about dollars and wage rates, we are not talking about mandated government benefits and membership in a union. In the United States we are talking about benefits provided for in a collective agreement. So the weakening dollar would have absolutely no effect.

In addition many of the countries which export tie their currency to ours, such as Korea and Taiwan. So the drop in the dollar would have no impact at all.

Mr. STAROBIN. I simply wish to add that the countries which ship the predominant amount of apparel into the United States have currencies that are tied to the dollar and fluctuate as the dollar fluctuates, and therefore, there has been no benefit whatsoever from a fall in the dollar.

Mr. PEASE. I think we just heard that the Taiwanese currency had appreciated about 16 percent against the dollar.

Mr. STAROBIN. That is only in the most recent period and it remains to be seen what happens there. That is a result of particular pressure on the part of our government because of Taiwan's tremendously favorable trade balance with us. It is Mr. Baker's policy to try to reduce those trade balances by devaluing the dollar.

Mr. PEASE. What about the newly negotiated and agreed to MFA from last year? Do you see that MFA as being better than the old one in any significant respect and do you expect any positive results to flow from that new MFA?

Mr. MAZUR. Let me give the conclusion and Herman, who was involved in most of those negotiations, as an adviser to the Government, was that the answer is absolutely not. The Government, as far as we are concerned, gave away the store once again. Since 1973 history has shown that while the MFA calls for a 6 percent annual growth, the growth has been well over 100 percent, if I have the figures correct. And if we look at the growth rate since then from the point of view of what the MFA is supposed to do, limiting trade, avoiding market disruption, it has done nothing of the sort.

Mr. STAROBIN. I think that one also has to look at it not in terms of MFA or international agreements. I think one really should relate to our Government's policy in carrying out the MFA. And it is interesting that the Common Market did during MFA-3, the agreement negotiated in December of 1981. It went into effect on 1 January of 1982. As a condition of adherence to MFA-3, the Common Market said that it must first negotiate its bilateral agreements with its major trading partners in textiles and apparel. As a result, over 6 years, the increase in imports to the EC was roughly 10 percent, whereas it was about 110 percent of the United States. So it is not only the agreement, but how it is carried out.

Mr. PEASE. I couldn't agree with you more on that statement. This administration, which is so concerned about assaults on what it calls free trade, ought to look to its own lack of enforcement of MFA over the last 6 years. I suspect if the administration had been as good at enforcing the MFA as the Europeans have been, you would not be here today. So the administration has no one but itself to blame when it finds protectionist sentiments in the Congress.

Mr. MAZUR. I might add that it should put to rest this whole business of retaliation. The Common Market held it down 5 or 6 percent over 5 years without retaliation.

Mr. PEASE. You made the statement, I believe, that this new bill would not be a violation of MFA or the GATT. Is that correct?

Mr. MAZUR. It is MFA and GATT compatible.

Mr. PEASE. I guess I have a hard time understanding that MFA provides certain amounts that can be imported; you put a 1 percent cap on it, regardless of how much the market, domestic market grows.

Would that not be a violation of MFA?

Mr. **Mazur**. Not as we understand it. But it is 1 percent growth per category per year. The President has the authority to decide who is going to get what in terms of one percent growth.

Mr. **Pease**. One percent, as I understand it, though, is an absolute figure in this bill, without relationship to how much the market grows.

Isn't that correct?

Mr. **Starobin**. It is, if I can answer your last question first.

The 1 percent is based on historic market growth. Now, it varies from year to year. We have projected it over the last 13 years for comparison. That is where it comes in—around 1 percent on an average—and that is also true of textiles, the increase in textile consumption.

Mr. **Pease**. Are you suggesting, then, that this bill might be a technical violation of the MFA but it is within the spirit of the MFA?

Mr. **Starobin**. No, not at all, because MFA carries a provision permitting the individual importing countries to take action, but only on a global basis. It cannot discriminate against any countries. A country can act if its own market is threatened. The findings in that 1542 suggest that the market is being disrupted by the tremendous increase in imports.

If you look at U.S. imports of apparel over the last 6 years, the increase has averaged about 15 percent per annum.

Mr. **Pease**. I noticed that from your testimony—two questions, Mr. Chairman, and I will be finished.

One relates to this "Made in the USA" media campaign which the industry is involved in. I think that that is one of the most attractive, compelling TV and radio campaigns that I have seen in a long time. Whoever does it is doing a very fine job.

I am just curious whether you have seen any result from that campaign. Is there any growing consumer preference for American-made products?

Mr. **Mazur**. I think it has had some effect.

I can't sing, Congressman, so I won't sing the ILG Union Label song. We spent a significant amount of money trying to promote union-made products and American products, and we found that the consumer goes into the store and believes, erroneously, that imported products are less expensive for them and of better quality.

We don't believe so. We believe, as I said in my testimony, that the only real remedial action, as a first step, has to be legislation. We have tried the MFA since 1973, as Herman and I have indicated very clearly. In spite of it, it has grown by 110 percent in the last 6 years when MFA calls for 6 percent growth without market disruption. It has been substantially in excess of 6 percent.

There has been an inordinate amount of market disruption. When you take 55 percent as the figure or even 45 percent as the penetration figure, we are destroying the infrastructure of labor-intensive industry in this country. We believe that is the only way.

So I don't think that—while "Made in the USA" has impact on people sensitive to American-made products, the real issue, as I see it, is jobs—whether in small communities in the South or East or the West or whatever part of this country. Those are the things that really impact on people and communities. Loss of jobs has a lot more to do with it than "Made in the USA." I don't think what I would say that it is only patriotism that we need.

We have always felt we were not interested in closing our borders. We are interested in the fair shake. When many of your colleagues call for a level playing field, we, too, are looking for some measure of partnership.

I would suggest that if you and I were partners and it was 50/50, that would be fair enough. We are closer to 60/40. That begins to disturb us.

Mr. Starobin. May I add one thing to the question you asked earlier?

One of the problems in our policy, I think, based on going out on various negotiations around the world, is that we treat each country as a separate entity and never add them all up. And when you do add them all up, you get stupendous figures. You may start with ~~small~~ increases, but when they are totaled it is enormous.

Mr. Pease. I understand that, and that is certainly a major problem in the enforcement of MFA in the last 6 years or so.

As I understand this textile bill, it provides that if GATT finds that enactment of the textile bill results in a violation of GATT, there can be compensation, the bill authorizes compensation.

Is that correct.

Mr. Starobin. You can have retaliation even if there is no violation of the GATT, because under the GATT rules—article 19 of the GATT specifically—if a country feels that it has been harmed by limitations placed by any country on its exports, it has the right to ask for compensation.

This legislation incorporates compensation in advance. In a real sense, it answers the arguments that it is not GATT-compatible. Therefore, it calls for a 10-percent across-the-board cut in duties on textile product imports.

We don't accept the view, and I think others in the legal profession do not accept the view, that the bill is in violation of GATT.

Mr. Pease. I see.

If you were to reduce duties on imports on garments by 10 percent, presumably the purpose of reducing duties is to give the other country an advantage, to spur sales.

Do you also then grant that country an exemption from the quotas so that it can take advantage of the lower price because of the lower duty?

Mr. Starobin. No. In a sense, you are not really giving them a cut in duties to spur sales. You are giving them a cut in duties to repay allegedly lost profit as a result of the limitations provided in the bill on the import of products from that particular country.

Mr. Pease. I see.

OK. Final question.

The chairman has continually pointed out that the textile industry appears to be in a lot better shape than the garment industry. And you, in turn, have continually emphasized that they are part and parcel and need to be taken together as a group.

The question I have for you is this: If the members of the subcommittee find that the case of the textile industry is not persuasive and convincing, then are we to vote not to grant relief to them or to you pursuant to your desire that both industries be considered together?

Mr. **Mazur**. We would trust, when you have all the facts, that would not be your conclusion.

We cannot see any conceivable way that you can separate the textile industry from the apparel industry, given the interrelationship. They are symbiotic. You can't really speak about the apparel industry in this day and age without talking about the textile industry.

I would agree with the chairman that it may appear to be an aberration. It may be short-lived; it may be what I indicated earlier, you have less firms doing more. We don't really know how many firms are on the verge of going out of business.

There has been a tremendous amount of capital improvement. I am not as familiar with the textile industry and I think they can best speak for themselves. But my own limited knowledge of the textile industry clearly illustrates to me that it would be almost impossible to separate the textile industry from the apparel industry, and we would hope that would not be done.

Mr. **Pease**. Well, I am not an expert in this area either, but let me just posit a possible scenario.

Let's say the American textile industry is highly competitive, it is mechanized, puts in a lot of capital equipment and so on. It turns out a lot of good, high quality textiles, competitive textiles, and those textiles are cut in the United States and shipped down to Mexico or Jamaiça or Honduras or elsewhere and brought back into the United States.

That is fine and dandy for the textile industry. It is still very, very competitive, but it certainly won't provide any jobs for your industry.

Mr. **Mazur**. That is correct, because we have had great reservations about item 807. It is an area in which we and the textile industry have, to some extent, in the past parted company. But again, as I say, there are areas of difference—and I will not in any way obfuscate them—in terms of technology, in terms of the amount of investment they have made in the industry or the fact they are doing better. Their penetration is also very significant.

We feel in the long run if we are looking for relief, if one looks back to see the extent to which the textile industry has been impacted and if we were to take one or two good years and use that as an indication of long-range profitability, I think that would be a terrible mistake. I don't think that the textile industry can live with 60/40. That is what we are really saying.

I don't think the textile industry is saying anything different. As to what extent they are being impacted, they are saying we are ready to live with sharing our market to the extent we have already shared it.

When they talk about profits, I have no problem with them making profits. I am not opposed to importers making a profit. It is a question of how we share the market. It is a question of equity in terms of jobs, whether the consumer gets benefits.

I think if one looks for some balance, the present circumstance does not lend itself to balance or to long-term stability.

Mr. **Pease**. Thank you very much.

Mr. **Starobin**. Mr. Pease, may I add, on your question relating to making the garments of American fabric in the Caribbean, I think it is significant that when the President announced the new program, which is called Super 807 for short, the textile industry, which might have been viewed as a beneficiary of that policy, was very much opposed to it, publicly and privately.

The reason for that, in very large measure, was the fact that there was no way, under the regulations that were put together by the Department of Commerce, to guarantee that American fabric would be used.

The regulations are extremely loose and the textile industry has testified to its opposition to a Super 807 program.

Mr. **Jenkins**. I think we are going to have to suspend, but I want to express my appreciation to the panel for your testimony.

I want to make one comment. I keep hearing the problems with U.S. productivity and hard work and that type of thing, but every figure that I have seen indicates that the productivity in this industry is higher in the United States than it is anywhere else in the world.

So if it takes an American worker 1 hour to make a pair of jeans and it takes a worker in a foreign country 1 hour to make that same pair of jeans, is that industry more efficient than our industry simply because they pay 16 cents an hour and we pay $6 an hour?

I don't see that that proves that the other nation is more efficient than our Nation. It is simply not true. If we were willing to live with 16 cents an hour labor, or 30 cents or 40 cents, then I assume we could recapture the market.

Thank you so much for your time.

Mr. **Mazur**. Thank you for the opportunity.

Mr. **Jenkins**. Our next panel will be Mr. Philip Lelli and Mr. Travis Montgomery, and we have Congressman Norman Dicks, who would like to make an introduction of Mr. Lelli.

Mr. **Dicks**. Mr. Chairman, I know we have a record vote underway and I want to be very brief.

We have an outstanding citizen from my district, Phil Lelli, who has been a long-time leader in the Longshoremen's & Warehousemen's Union in Tacoma for over 20 years. The Port of Tacoma, as you know, is one of the leading ports on the west coast. We are one of the closest links with the Pacific. In 1986 alone more than $4 billion worth of textiles and garments moved through our State's ports, providing thousands of jobs.

Phil has really seen the growth of trade and has an understanding from the working man's perspective and as a labor leader, and I am honored to present him here today. I know we have to go over and vote, but I think he will give you some very good testimony.

Jim Langlois is here from our State and we are very pleased that you are having these hearings. I know that you and I both have deep concerns about jobs all over this country.

I know that this committee has always attempted to give the citizens from all over the country a chance to come and present their views, and for that I want to thank you, Mr. Chairman and Congressman Pease, two classmates of mine. We came to Congress at the same time.

I appreciate this opportunity to introduce Phil.

Mr. JENKINS. Thank you. I want to express my appreciation to you for the interest that you have shown. You are a great advocate of your part of the country and your constituents should know that.

We do have a vote on on the House floor, so the subcommittee is going to suspend for 15 minutes in order for us to make that vote.

[Recess.]

Mr. JENKINS. The subcommittee will come back into session. I apologize for the delay because of the vote. We will come to the committee.

At this time we will hear from Phillip Lelli.

STATEMENT OF PHILLIP LELLI, LOCAL 23, INTERNATIONAL LONGSHOREMEN'S & WAREHOUSEMEN'S UNION, TACOMA, WA

Mr. LELLI. Good afternoon, Mr. Chairman, and members of the committee. My name is Phillip Lelli, and I am here today on behalf of the 737 members of Local 23 of the International Longshoremen's & Warehousemen's Union in Tacoma, WA.

It is a real honor for me to be here today representing a group of men and women who have earned an international reputation for their efforts to create jobs by expanding trade—both exports and imports—on the west coast. As you may know, we earn our livelihood primarily by loading and unloading ships. And, I may add, a considerable amount of warehousing in the Tacoma area, so our future is directly dependent on the volume of cargo moving across the docks. Some of you may recall back in 1958 an agreement was signed called the Manning and Mechanization Agreement, which allowed for the automation or mechanization of port and shipping activity without union restrictions. While this eliminated a lot of the mule work that we used to do, it also cut deeply into the ranks of the longshore unions. However, for reasons that I would like to explain, this has not been the case with local 23. In fact, we are the only longshore local on the entire west coast which has seen an increase in our members and an increase in our manhours since the early 1960s.

The reason for that is simple: We realized even back then that the only way we could protect our jobs, much less increase them, would be to increase the tonnage moving across the docks. Furthermore, we recognized that this was just as much our responsibility as it was management's and we took it upon ourselves to develop a cooperative approach toward keeping our current customers satisfied, by working with the port to attract new customers and to create work opportunities for our members.

I think the results speak for themselves. Since that period of time, our tonnage has increased six or seven times over what it was in the early 1960's, and as I said, our manhours have steadily grown.

Recently, for example, mostly because of our productivity and positive attitudes, two steamship lines, SeaLand and Masersk, decided to locate major new terminals at the Port of Tacoma. Last year, because of my position as president of the local for 16 of the last 20 years, I was given the first leadership award by the Tacoma-Pierce County Economic Development Board for our efforts to bring new business to the area. I may add that that leadership award was given to me but it was representative actually of the men and women that work on our waterfront.

Our members are also frequently included on trade missions by the port and others seeking new customers for our products or users of our marine facilities. I also had the honor of representing our local on the Governor's Advisory Committee on International Trade and Development from 1983 through 1985.

The reason I mentioned all this is because I firmly believe that a positive approach to attracting new jobs is in the best interests of working men and women in this country.

I further believe that the best approach to tackling problems like the trade deficit is to find ways to expand trade, not restrict it.

Textile and apparel imports are critically important to our members. In 1986, more than $3.8 billion worth of textile and apparel products came across the docks in Tacoma and Seattle alone. There are a lot of jobs at stake here, not only on the docks but also in trucks, on trains, in warehouses and offices throughout our State.

There is another side to this, too, which deeply affects us. Washington State is a major exporter of timber and agricultural products and our best customers tend to be those same countries that sell us textile and apparel products. In fact, I found this interesting. Last year, we exported just under $4 billion in timber and agricultural products from Washington State—just slightly more than the value of the textile and apparel products that we imported. Much of that volume went from the farms and forests of Washington State across our docks to China, Korea, Taiwan, Hong Kong and Japan, and was no doubt purchased with dollars earned from selling us their products.

What bothers me most about this textile bill, H.R. 1154, is that it threatens the jobs of our members. It also bothers me because I think the whole approach is negative and won't do anything to improve the situation of the U.S. textile industry in the long run. As I said earlier, I believe the policy of our Government ought to be to expand trade, not restrict it. It seems to me we ought to be trying to create jobs in the United States by trying to expand our exports of textile products. And, if there are other steps which need to be taken, other than trade restrictions, to improve the situation for the domestic textile industry, I would encourage you to look for them.

Thank you for allowing me to testify.

Mr. JENKINS. Thank you, Mr. Lelli.

Our next witness is Mr. Travis Montgomery, director of trade development, Port of Long Beach, CA.

STATEMENT OF TRAVIS A. MONTGOMERY, DIRECTOR OF TRADE DEVELOPMENT, PORT OF LONG BEACH, CA

Mr. MONTGOMERY. Thank you, Mr. Chairman.

My name is Travis Montgomery, and I am the director of trade development of the Port of Long Beach, Calif. I thank you, and the committee for the opportunity to appear before you today, and offer my comments on H.R. 1154.

As background, the Port of Long Beach is the largest port on the west coast of the United States, having handled a little over 58 million metric revenue tons of cargo in fiscal year 1986. Nearly 68 percent of this cargo was imported cargo.

The majority of my testimony today will deal with textiles and textile products basically as defined in section 8 of the bill, and which fall into the general category of waring apparel as used in the port industry for statistical purposes. The amount of advance time given regarding these hearings did not allow a full discussion in my testimony of all of the findings in section 3, but I do believe that my testimony establishes a basis of information regarding textiles and textile products that is equally valid in the other categories defined.

Using the categories mentioned in paragraphs B, C, and D of section 3, 857,000 metric tons of cargo were imported over west coast ports of the United States in calendar year 1986. My comments today will generally be regarding the west coast of the United States, not Long Beach in particular.

Approximately 88 percent of this cargo was from the eight Far East countries of Taiwan, Hong Kong, Korea, China—82 percent of this amount from these four countries—with the remainder coming from Japan, Singapore, Indonesia, and the Philippines.

This coastwide statistic is mirrored by the individual ports, and provides a valid picture of textile and textile product imports in this region of the country.

Using an economic impact formula developed by our port in conjunctions with the maritime consulting firm of Williams-Kuebelbeck, which has proven to be conservatively valid, in excess of 100,000 direct and indirect jobs are supported by the value of this 857,000 tons of cargo.

Mr. Chairman, I think that it is fair to say, that in many respects, the job loss or displacement being discussed in H.R. 1154, is a regional issue. I must concede that as mills in the North-East and South-East have closed there has been a loss of jobs.

However, as trade patterns have shifted from an Atlantic Ocean emphasis to a Pacific Ocean emphasis, new jobs related to trade have been created in the West. I think it also fair to say that many areas of manufacturing employment in our country have experienced a decline as we have become more and more of a service related economy, with new jobs created in those industries.

The 1980 employment statistics for SIC 22—textile mill products—and SIC 23—apparel manufacturers—compared to 1986, do indeed show a decline of some 287,000 jobs. However, correspondingly the SIC categories for general merchandise and apparel stores show an increase of 233,000 jobs during this same time frame, I think this is indicative of the change from a manufacturing to a service related economy.

During this same period, the U.S. unemployment rate has actually decreased, while the work force has increased by nearly 12 percent. We truly are experiencing a change in where, and at what, citizens work, with more of them employed today, and less unemployed than in 1980. Therefore, Mr. Chairman, while the growth of imported wearing apparel has grown at 8 percent annually these past several years, workers in the domestic marketplace have been, or had the opportunity to be absorbed into other segments of the employment market. In fiscal year 1985–86 employment in the domestic apparel industry was essentially stable, with a decline of less than one half of 1 percent.

I would like to discuss for a few moments the financial impact of apparel imports on the west coast, other than jobs.

In 1985, the latest figures available, the estimated value of apparel imports via west coast ports was $7.5 billion. The estimated value of U.S. customs revenue derived from these apparel imports is well in excess of $1 billion, and I have learned since I arrived last evening not 13 percent as printed in my testimony, but 18 percent of the apparel value. We believe this to be a very conservative number, and yet it represents nearly one-fourth of the west coast Customs revenue during this period.

The formula derived from the previously mentioned economic impact study of the port, tells us several things related to the value of these imports. $2.2 billion of wages and salaries will be generated from the west coast cargo in apparel related industries. This amount of wage and salary also has a multiplier effect on consumer spending, savings, et cetera.

In addition to wages and salary, taxes of over $750 million will be paid by businesses in the apparel related industry, over and above the $1 billion in customs revenue generated.

Mr. Chairman, the import apparel business is big business out West for not only the private sector, but for the Government. The customs revenue in excess of $1 billion is direct income to the General Fund.

Before concluding, I would like to open one other area of discussion. That is exports. I earlier mentioned approximately 68 percent of our tonnage was imports, but that is not to say that we are not concerned about exports. In 1986, 83 percent of the cotton exported from the west coast, went to the eight Far East countries previously mentioned. This cotton tonnage amounts to 70 percent of the tonnage of apparel imports. The closest number we have been able to establish, is that 30 to 35 percent of cotton exports return in some type of imported goods. This one third of our export volume then pays customs fees, and makes a recontribution to out economy.

H.R. 1154 discusses the declining market share for domestic cotton producers and annual revenue loss. And, while these losses are related to the amount of domestic cotton contained in imported apparel, we must recognize that once cotton export markets such as China are themselves now net exporters of cotton, and many of their customers are in the Far East.

Cotton exports have declined the past 3 years, mainly due to the high cost of domestic cotton in the world market. However, this past year the Federal Government instituted financial aid to put domestic cotton on an even footing in the world market and we are seeing a 20-percent increase in cotton exports in the first half of the 1987 cotton season over the entire 1986 cotton season.

My point, Mr. Chairman, is whether you use the 20 percent cotton domestic content mentioned in H.R. 1154 or our 30 or 35 percent figure, a significant amount of export product can be affected by import limitations.

Any legislation that would inhibit exports, or cause retaliatory action by our trading partners will not be good for the economy of the United States. We in the West are particularly concerned about protective trade legislation and its impact on longshore, shipping, and other trade related jobs.

Our public port authorities have invested billions of taxpayer dollars in facilities to efficiently accommodate the waterborne commerce of this Nation. We are active participants in the stimulation of trade, and are frustrated by the minimal interest in exporting manufactured goods in this country. We too are seeking ways to better balance trade, and make better use of our facilities. However, Mr. Chairman, we do not believe legislation limiting imports as described in H.R. 1154 will do anything to contribute to the overall benefit of our Nation's economy, or stimulate exports and would, in fact, be a severe blow to the economy of the West Coast.

Again, I thank you for the opportunity of being here today, and I would be happy to respond to any questions.

Mr. JENKINS. Thank you both for your testimony, those were the bells for another vote, so I will not have too much time to question either of you, but let me ask two or three things.

Mr. Lelli, what is the average wage of your members on the West Coast?

Mr. LELLI. $46,000 a year.

Mr. JENKINS. $46,000 a year?

Mr. LELLI. Yes.

Mr. JENKINS. Obviously——

Mr. LELLI. That is speaking for my local only.

Mr. JENKINS. A large part of the cost of imports apparently is in labor costs as against this country?

Mr. LELLI. If you take the cost of putting products across the dock in 1958 and use that dollar value not inflated or changed it costs less per ton today than it did in 1985 when we were making $2.65 cents an hour. Our mechanization has overcome the costs of any type of labor connected with our industry on the west coast.

Mr. JENKINS. The 2 million people that are involved in the domestic textile and apparel industry average, and I am sure you were here this morning, an average wage of $6 an hour with fringe up to $6.50 an hour. In view of the fact that your members are making $47,000 a year handling imports primarily, I understand you handle both imports and exports.

Mr. LELLI. We handle more exports, sir, than we do imports.

Mr. JENKINS. Don't you think it might be better just to do away with the industry and import everything?

Mr. LELLI. I don't think so, sir.

Mr. JENKINS. What do you think this industry can do to export to compete with 16 cents an hour labor?

Mr. LELLI. We export out of the port of Tacoma all kinds of wood products, pulp, lumber, logs and so on. The amount of exports going out of the Port of Tacoma are higher than the imports we take in.

I suppose—I guess we have to get a do-it-ourself kit and deal with the problem. For example, just north of us 180 miles, is the Canadian border.

The largest port on the west coast of Canada is within 200 miles of the Port of Tacoma. The Canadian dollar is of less value than the American dollar even today. It is a competitive foreign port to us and yet when we got out our do-it-yourself kit in Tacoma we were able to overcome with hard work and I would say smart work, the advantage that the Port of Vancouver, Canada, had over Tacoma, including railroad problems and everything.

I think that in any industry if the worker allows the mechanization of the industry freely without restriction that that will go a long way to make that industry more profitable for the employer and worker, and lots more competitive with even foreign workers such as we compete with.

Mr. JENKINS. The wood products that are shipped from the Pacific Northwest out of your port there in Tacoma, are most of the exports in the form of logs?

Mr. LELLI. I would say probably 50 percent is in the form of logs, and maybe 30 percent in the form of pulp products and other lumber and semi-finished products.

Mr. JENKINS. Then we have a finished product done in some other country, and it comes back into the port, is that right?

Mr. LELLI. Absolutely not. No fir or wood products that I know of produced in the Northwest return across our docks.

Mr. JENKINS. No plywood?

Mr. LELLI. Plywood that returns is what they call Philippine Lujan plywood, which is manufactured of Lujan timber that is harvested in southeast Asia.

Mr. JENKINS. I remember a big project we had up here that had to do with the timber business, as well as cedar shakes. We ended up, of course, working out an agreement where we would continue. There was a subsidy in Canada on stumpage, and there was considerable fight here in the committee on that.

Mr. LELLI. I am not much of an expert on the timber shake industry of Canada, but I could tell you this. There are timbers—there are cedar shakes being shipped out of the Port of Tacoma continually to the islands and to Australia and New England.

It isn't a major product, but it has been a continuing product for the 35 years I spent on the Tacoma waterfront, and still exists today.

Mr. JENKINS. Mr. Montgomery, I see about 68 percent of your cargo is in the form of imports; is that right?

Mr. MONTGOMERY. That is correct.

Mr. JENKINS. You indicate that we are doing better now in exporting cotton.

Mr. MONTGOMERY. This current year's production is up, and the export market is up.

Mr. JENKINS. Because we are subsidizing domestic cotton.

Mr. MONTGOMERY. That is the main contributing reason.

Mr. JENKINS. Is that the answer for us? Should we go ahead and subsidize agricultural products, timber-manufactured products, so we can compete?

Mr. **Montgomery**. I can't really tell you that is the answer, Mr. Chairman. It is a fact that countries that were once importers of cotton, such as China, is no longer; countries such as Pakistan, which was one time a major importer of cotton—these are both net exporter nations.

Mr. **Jenkins**. India is self-sufficient.

Mr. **Montgomery**. Yes. As you looked into these marketplaces—on the world market, that has put a major glut of cotton out of the market and has made our prices, which do suffer from other costs here, noncompetitive in the world market. That is the major reason that crops have been held back or——

Mr. **Jenkins**. We don't grow any cotton in my area. It is all in Texas, in the West, of course, now. But we either have the alternative of subsidizing or telling these people to reduce their standard of living, don't we—their profits, that are growing cotton, if they are to compete?

Mr. **Montgomery**. Again, I am not an expert on cotton by any source, but in talking with the cotton people, they have not been able to compete worldwide.

Many of those farms have cut back and reduced, and this is the first year they have been able to feel like they had any kind of resurgence in their economy at all. We are seeing it in terms of handling that export from the United States.

Mr. **Jenkins**. I apologize that we have to cut the session short, but there is a vote on the House floor.

This concludes the hearings for today. Any individuals or organizations who wish to submit a written statement for the record must submit them to the subcommittee by Friday, May 29.

The subcommittee stands adjourned.

[Whereupon, at 3:50 p.m., the subcommittee adjourned, subject to the call of the Chair.]

TEXTILE AND APPAREL TRADE ACT OF 1987

TUESDAY, JUNE 2, 1987

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:01 a.m., in room 1100, Rayburn House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman Gibbons. Good morning, ladies and gentlemen.

Today, the Subcommittee on Trade continues its hearings to consider H.R. 1154, the Textile and Apparel Trade Act of 1987.

During the previous 2 days of hearings, the subcommittee received testimony from the administration, from members of the Congressional Textile Caucus, and from numerous private sector witnesses who would be affected if this bill became law.

This morning we are privileged to hear from more of our colleagues in the Congress, as well as from representatives of two agencies within the legislative branch of Government, the Congressional Budget Office and the Office of Technology Assessment. These agencies were established by Congress to provide us with competent, unbiased information within certain areas of technical expertise.

At the request of this subcommittee, the CBO last year completed a study of the effect of import protection in revitalizing domestic industries. The CBO chose four industries as case studies: textiles and apparel, steel, footwear, and automobiles.

The subcommittee has invited the current Acting Director of CBO, Dr. Edward Gramlich, to testify today on the findings of CBO for the textile and apparel and footwear industries.

In April of this year, the Office of Technology Assessment issued a special report entitled "The U. S. Textile and Apparel Industry: A Revolution in Progress." This report examines the impact of technology on the development of the two industries. The OTA project director who supervised this study, Mr. Henry Kelly, is with us this morning to share his OTA findings.

We will hear first from Dr. Gramlich, then from Mr. Kelly. Then open up for questions for both of you. We welcome both of you this morning.

Let me say all statements today will be put in the record as if they had been delivered, unless there is objection, and we hear no objection. And the witnesses, of course, may ask questions of each other, if they want to, at the table down there. And, of course, I am sure we at this table will have some questions of our own.

Doctor, you go right ahead.

STATEMENT OF EDWARD M. GRAMLICH, PH.D., ACTING DIRECTOR, CONGRESSIONAL BUDGET OFFICE, ACCOMPANIED, BY DANIEL KAPLAN

Mr. Gramlich. Thank you very much, Mr. Chairman.

I have to my right here Daniel Kaplan, who was the author of the study that was referred to, and I will turn to him if the questions get difficult.

I am pleased to appear before this subcommittee. My testimony today considers the circumstances under which trade protection could reduce costs for firms, but why in practice this process could also break down. The testimony then discusses the effect of trade protection on both the domestic textile and apparel, as well as the footwear industries.

Free and open trade increases the wealth of a nation. It enables a country to specialize in producing those goods and services that it makes efficiently and to purchase those that other nations produce more cheaply. The United States has long been a global leader in creating a liberal trade environment.

Imports increase competition in domestic markets to the clear benefit of consumers. But, on the other hand, they sometimes displace the output of domestic manufacturers. As a result, resources are idled and workers employed in these industries must find new jobs. To reduce these adjustment costs, the United States as well as other countries, have restricted imports to ease the competitive pressures on domestic firms. Throughout the post World War II period, the United States has used quotas to limit imports of a variety of products. Sometimes the restrictions have not been effective in reducing imports, but even when they were, they have not had much effect on the industry's competitiveness.

A recent CBO study prepared for this Subcommittee considered the effect of trade protection in restoring the competitiveness of domestic firms in four cases—textiles, apparel, footwear, steel, and automobiles. Rising sales of foreign produced products led the United States to limit imports in each of these industries. Some, like textiles and apparel, received several episodes of protection. In no case, however, did the Congressional Budget Office (CBO) find that trade protection made a significant improvement on the industry's long-run ability to compete in international trade.

The difficulties of domestic firms competing internationally frequently stem from their higher costs. The key to reducing these costs often requires adopting a new production process and investing in new plant and equipment. Thus, trade protection may help to revitalize an industry if it increases the rate at which firms would adopt new cost-reducing technologies.

But trade protection only indirectly encourages firms to adopt a new production process. Trade restraints initially increase the price of imports by restricting their supply. The higher prices for imports increase demand for domestically produced substitutes. Greater demand then allows domestic firms to increase production and raise their prices, thus increasing their profits. These higher profits may help the firms finance new plant and equipment leading to cost reductions that would be otherwise unobtainable.

But the sequence of events rarely occurs without a hitch. To begin with, trade protection will only help an industry with high costs if new technologies are available but firms do not have the resources to acquire them. Thus, if the sequence is valid, capital markets must be unable for some reason to provide the requisite funds, or investors must not perceive that the new investments will be profitable. Moreover, firms will probably not use the additional funds resulting from protection for new equipment if other investments—perhaps diversification away from the industry—can be expected to yield a higher rate of return. Furthermore, trade restraints often do not lead to significant increases in the profitability of domestic firms. Quotas of shipments of foreign exporters are the most common type of restraint. Since quotas rarely apply to all of the world's producers, firms in countries not covered by the quotas often increase exports to cover part of the shortfall. In addition, producers of the restrained products often shift production either to related products that are not covered by the quotas or to higher valued products that are. Since higher priced products tend to be more profitable, product upgrading by foreign producers often limits the effect of protection on profits of domestic firms.

Even if it increases profits, protection can nonetheless reduce firms' incentives to invest in a new technology. Since investments involve more or less certain expenditures in the present for uncertain returns in the future, they are risky, and firms are often reluctant to invest without the threat of competition. Hence, by limiting competition, protection may significantly reduce the firm's incentives to adopt a new production process.

Saving jobs is a frequent goal of trade protection, but these new technologies generally use less labor per unit of output than the technologies that they replace. Thus, even if protection does assist in modernizing and industry, it may lead to lower total employment. In fact, if a firm elects to locate a new plant in a different part of the country, the workers in its existing facility would not receive much benefit from the increased employment.

At this point, my testimony follows with descriptions of both the textile and apparel and footwear industries. I won't read all of what is in the testimony, but I will read one or two paragraphs from both sections.

First, the textile and apparel industry has received increasing amounts of trade protection since restraints were first imposed in the mid-1950's. While each additional increment provided the industry with some benefit, the responses of foreign producers, changes in the value of the dollar, and the development of new products quickly limited the impact of protection. These effects led to more and stricter restraints that led to further reactions by foreign producers. But overall trade protection had only a small effect on profits and investment of domestic firms. Moreover, employment in both the textile and apparel industries still declined throughout the period.

My testimony then goes on to talk about the numerous episodes of restraints. I will just insert this material for the record, and then return to a summary of the economic effects that begins on page 9 for those of you who are following along here.

As I have already mentioned, output of both the textile and apparel industries have remained relatively constant since the Multi-Fiber Agreement (MFA) was negotiated. One should note that this has been true in the 1980's despite the rapid increase in imports. The after-tax profits of the textile industry have also remained relatively stable and its profitability, after tax profits as a percent of stockholder's equity, has actually improved when compared with the profitability of all manufacturing. There are no comparable data for apparel manufacturers.

If domestic firms are able to reduce their costs, they must adopt new production techniques. This step invariably requires new plant and equipment. Yet increasing protection in the industry has not seemed to stimulate increased capital expenditures. In both industries, investment has not increased since the MFA went into effect. In fact, real capital expenditures peaked in the early 1970's when the domestic production of synthetics expanded even as imports rapidly increased. Moreover, during the import surge of the 1980's, the industry's long-term debt as a percentage of stockholder's equity fell below the average of all manufacturing. These factors seem to indicate that the industry could have acquired additional funds from the capital markets and that a lack of resources has not been limiting their investment.

The footwear industry has also received trade protection because of increased imports. Unlike textiles and apparel, protection lasted for only 4 years and affected imports from only two countries, Taiwan and Korea. But like the textile and apparel industry, increased imports from other countries and the changing composition of output from constrained countries limited the impact of the restraints on domestic producers.

Nevertheless, the restraints may have had a positive impact on the industry's profits, especially during the last 2 years. Moreover, investment in new plant and equipment by the domestic industry increased during the quotas' final years. Because the industry historically has had a relatively high amount of long-term debt and relatively low profitability, footwear producers may have had difficulty in securing funds for new plant and equipment. Thus, the increased profits while the quotas were in effect may have contributed to the increased investment.

Despite this increased investment, trade protection did not appreciably improve the competitive position of the footwear industry. Its labor productivity declined while the restraints were in effect and increased at one-half the rate of all manufacturing after they lapsed. More significantly, footwear imports increased rapidly when the quotas expired.

If the Congress believes that these industries need more assistance, the benefits of additional protection must be weighed against its costs. By preventing the Nation's resources from being used most effectively, protection imposes significant costs on the economy. Retaliation by other nations would also impose additional costs. Moreover, such protection may not achieve the fundamental objective of lowering the costs of domestic producers. Even if further protection significantly increased firms' profits and a new cost reducing technology existed, firms would only invest in the new equipment if it offered a higher expected return than alternative investments.

If the case is made that a lack of resources is limiting the industry's investments in new plant and equipment, there are policy options other than protection that are available. A direct subsidy, such as loans or loan guarantees, avoids the costs to consumers of the protected product and imposes fewer costs on the economy as well.

Competition among firms and industries generally provides for the best use of a nation's resources, though it invariably imposes costs on some firms and on some workers. To the extent that the Congress wants to reduce these costs, it is best to help displaced workers directly, say by some type of trade adjustment assistance. Since increased imports are not the only reason that workers lose their jobs, the Congress might also consider programs that are aimed more at the problems of worker mobility.

That concludes my statement, Mr. Chairman. Thank you and I will be pleased to answer any questions.

[The statement of Dr. Gramlich follows:]

Statement of
Edward M. Gramlich
Acting Director
Congressional Budget Office

Mr. Chairman, I am pleased to appear before this Subcommittee. My testimony today considers the circumstances under which trade protection could reduce costs for firms, but why in practice this process could also break down. It then discusses the effect of trade protection on both the domestic textile and apparel, as well as footwear industries.

Free and open trade increases the wealth of a nation. It enables a country to specialize in producing those goods and services that it makes efficiently and to purchase those that other nations produce more cheaply. The United States has long been a global leader in creating a liberal trade environment.

Imports increase competition in domestic markets to the clear benefit of consumers. On the other hand, imports sometimes displace the output of domestic manufacturers. As a result, resources are idled and workers employed in these industries must find new jobs. To reduce these adjustment costs, the United States, as well as other countries, have restricted imports to ease the competitive pressures on domestic firms. Indeed, throughout the post World War II period, the United States has used quotas to limit imports of a variety of products. Sometimes the restrictions have not been effective in reducing imports, but even when they were they have not had much effect on the industry's competitiveness.

PROTECTION AND MODERNIZATION: WHAT IS THE RELATIONSHIP?

A recent Congressional Budget Office (CBO) study prepared for this Subcommittee considered the effect of trade protection in restoring the competitiveness of domestic firms in four cases--textiles and apparel, footwear, steel, and automobiles. Rising sales of foreign produced products led the United States to limit imports in each of these industries. Some, like textiles and apparel, received several episodes of protection. In no case, however, did CBO find that trade protection made a significant improvement on the industry's long-run ability to compete in international trade.

The difficulties of domestic firms competing internationally frequently stem from their higher costs. The key to reducing these costs often requires adopting a new production process and investing in new plant and equipment. Thus, trade protection may help to revitalize an industry if it increases the rate at which firms would adopt new cost-reducing technologies.

But trade protection only indirectly encourages firms to adopt a new production process. Trade restraints initially increase the prices of imports by restricting their supply. The higher prices for imports increase demand for domestically produced substitutes. Greater demand allows domestic firms to increase production and raise their prices, thus increasing their profits. These higher profits may help the firms finance new plant and equipment leading to cost reductions that would be otherwise unobtainable.

This sequence of events rarely occurs without a hitch. To begin with, trade protection will only help an industry with high costs if new technologies are available, but firms do not have the resources to acquire them. Thus, if the sequence is valid, capital markets must be unable for some reason to provide the requisite funds, or investors must not perceive that the new investments will be profitable. Moreover, firms will probably not use the additional funds resulting from protection for new equipment if other investments – perhaps diversification away from the industry – can be expected to yield a higher rate of return. Furthermore, trade restraints often do not lead to significant increases in the profitability of domestic firms. Quotas on shipments of foreign exporters are the most common type of restraint. Since quotas rarely apply to all of the world's producers, firms in countries not covered by the quotas often increase exports to cover part of the shortfall. In addition, producers of the restrained products often shift production either to related products that are not covered by the quotas or to higher valued products that are. Since higher priced products tend to be more profitable, product upgrading by foreign producers often limits the effect of protection on profits of domestic firms.

Even if it increases industry profits, protection can nonetheless reduce firms' incentives to invest in a new technology. Since investments involve more or less certain expenditures in the present for uncertain returns in the future, they are risky, and firms are often reluctant to invest without the threat of competition. Hence, by limiting competition, protection may significantly reduce the firm's incentives to adopt a new production process.

Saving jobs is a frequent goal of trade protection, but these new technologies generally use less labor per unit of output than the technologies that they replace. Thus, even if protection does assist in modernizing an industry, it may lead to lower total employment. In fact, if a firm elects to locate a new plant in a different part of the country, the workers in its existing facility would not receive much benefit from the increased employment.

PROTECTION IN THE TEXTILE AND APPAREL INDUSTRIES

The textile and apparel industry has received increasing amounts of trade protection since restraints were first imposed in the mid-1950s. While each additional increment provided the industry with some benefit, the responses of foreign producers, changes in the value of the dollar, and the development of new products quickly limited the impact of protection. These effects led to more and stricter restraints that led to further reactions by foreign producers. But overall trade protection had only a small effect on profits and investment of domestic firms. Moreover, employment in both the textile and apparel industries still declined throughout the period.

The first restraints were imposed on Japanese cotton textiles in 1956. These restraints encouraged firms in other countries -- most notably Hong Kong, Korea, and Taiwan -- to increase their exports to the United States. In 1961, a conference of major textile and apparel importing and exporting countries convened to consider the implications of the expanding trade in these products. The conference produced a procedure by which an exporting country and an importing country could limit textile and apparel shipments of specific products made primarily of cotton in particular circumstances.

The following year another conference modified these procedures and produced the Long-Term Agreement (LTA) that covered the trade in cotton textiles until 1974.

Just as the growth in exports from unconstrained sources limited the effectiveness of the original restraints on Japanese imports, the increasing use of synthetic fibers limited the impact of the LTA. Between 1960 and 1970, U.S. imports of products made from synthetics increased 10-fold, and synthetic apparel often substitutes for apparel made from cotton. Consequently, beginning in 1971, the United States negotiated voluntary restraint agreements with four major exporters of apparel and textiles made from synthetics. Two years later still another conference of exporters and importers of textile and apparel agreed to the Multifiber Arrangement (MFA), which added synthetics and wool to the products whose trade could be limited.

Both the Long-Term Agreement and the subsequent Multifiber Arrangement applied to imports from developing countries and Japan to the major developed countries. Neither covered trade among developed countries. Moreover, both agreements gave exporters considerable potential to expand. Participants at the conferences recognized that these industries provided significant growth opportunities for many developing nations. They, therefore, agreed that quotas could only be placed on specific products after a developed country demonstrated that imports were harming its producers. Further, quotas negotiated under the agreements were flexible -- exporters had some discretion to shift quota rights both among different products and between years. The quotas also grew over time. Under the MFA, negotiated quotas increased by at least 6 percent a year.

Since its original ratification, the MFA has been renewed three times and, in each case, the ability of developing countries to expand their exports of textile and apparel products to the developed countries has been curtailed. Moreover, in the most recent renewal in the summer of 1986, ramie, silk, and linen became subject to the MFA.

As originally conceived, the restraints in the textile and apparel industries were not designed to preserve the size of the industries in developed countries, but rather to prevent any sudden contraction. In fact, since the MFA was first ratified, the domestic output of both industries has remained roughly constant. The average annual contraction of the industries' emloyment of roughly 2 percent during this period is almost entirely explained by growth in productivity.

The major reason for adopting the MFA was to restrict imports of textile and apparel made of synthetic fibers. Yet, through the 1970s, the restraints continued to limit primarily imports of cotton products. While clearly some imports of some synthetic products as well as total imports from some countries were limited, the overall amounts of synthetic textiles and apparel were not much affected by the quotas. The lead of domestic producers in developing new synthetic blends and the weakness of the dollar played were important in the relative success of domestic producers during this period.

Imports of textiles and apparel increased dramatically following the rapid appreciation of the dollar and the improvement in the quality of foreign-made products in the 1980s. Despite this rapid growth, the effectiveness of the MFA in limiting imports probably increased. Moreover, this rapid growth supports the view that the MFA did not provide the domestic industry with much protection during the 1970s. If imports had been constrained by the quotas in the 1970s, they would not have been able to grow so rapidly in the 1980s. In addition, during the past five years, there have been sharp increases in shipments from Europe, which have never been restricted, as well as imports of unconstrained products such as silk, ramie and linen. Since the MFA did not apply to these imports, their growth indicates that the quotas negotiated under the MFA had become more significant in reducing cotton and synthetic imports from developing countries.

As I have already mentioned, output of both the textile and apparel industries have remained relatively constant since the MFA was negotiated. One should note that this has been true in the 1980s, despite the rapid increase in imports. The after-tax profits of the textile industry have also remained relatively stable, and its profitability -- after-tax profits as a percent of stockholder's equity -- has actually improved when compared with the profitability of all manufacturing. There are no comparable data for apparel manufacturers.

If domestic firms are to be able to reduce their costs, they must adopt new production techniques. This step invariably requires new plant and equipment. Yet increasing protection in the industry has not seemed to stimulate increased capital expenditures. In both industries, investment (adjusted by the GNP deflator) has not increased since the MFA went into effect. In fact, real capital expenditures peaked in the early 1970s, when domestic production of synthetics expanded even as imports rapidly increased. Moreover, during the import surge of the 1980s, the industry's long-term debt as a percentage of stockholder's equity fell below the average of all manufacturing. These factors indicate that the industry could have acquired additional funds from the capital markets, and that a lack of resources has not been limiting their investment.

PROTECTION IN THE FOOTWEAR INDUSTRY

The footwear industry also received trade protection because of increased imports. Unlike textile and apparel, protection lasted for only four years and affected imports from only two countries -- Taiwan and Korea. But like the textile and apparel industry, increased imports from other countries and the changing composition of output from constrained countries limited the impact of the restraints on domestic producers.

Nevertheless, the restraints may have had a positive impact on the industry's profits, especially during the last two years of the restraints. Moreover, investment in new plant and equipment by the domestic industry increased during the quotas' final years. Because the industry historically has had a relatively high amount of long-term debt and relatively low profitability, footwear producers may have had difficulty securing funds for new plant and equipment. Thus, the increased profits while the quotas were in effect may have contributed to the increased investment.

Despite the increased investment, trade protection did not appreciably improve the competitive position of the footwear industry. Its labor productivity declined while the restraints were in effect and increased at one-half the rate of all manufacturing after they lapsed. More significantly, footwear imports increased rapidly when the quotas expired.

OPTIONS

If the Congress believes that these industries need more assistance, additional protection must be weighed against its costs. By preventing the nation's resources from being used in their best uses, protection imposes significant costs on the economy. Retaliation by other nations would also impose additional costs. Moreover, such protection may not achieve the fundamental objective of lowering the costs of domestic producers. Even if further protection significantly increased firms' profits and a new cost-reducing technology existed, firms would only invest in the new equipment if it offered a higher expected return than alternative investments.

If the case is made that a lack of resources is limiting the industry's investments in new plant and equipment, there are policy options other than protection that are available. A direct subsidy, such as loans or loan guarantees, avoids the costs to consumers of the protected product and imposes fewer costs on the economy as well.

Competition among firms and industries generally provides for the best use of a nation's resources, though it invariably imposes costs on some firms and on some workers. To the extent that the Congress wants to reduce these costs, it is best to help displaced workers directly, say by some type of trade adjustment assistance. Since increased imports are not the only reason that workers lose their jobs, the Congress might also consider programs that are aimed more at the problems of worker mobility.

Chairman **Gibbons**. Thank you, sir.

We will next hear from Mr. Kelly, who is the project director of the Office of Technology Assessment, on the OTA special report, "A Revolution in Progress."

Go ahead, Mr. Kelly.

STATEMENT OF HENRY C. KELLY, SENIOR ASSOCIATE, OFFICE OF TECHNOLOGY ASSESSMENT, ACCOMPANIED BY DAN CHENOK

Mr. **Kelly**. Thank you, Mr. Chairman. It is a pleasure to be here.

As the previous speaker, I will summarize my prepared testimony.

To my right is Dan Chenok, who has helped me in the preparation of the report.

For the past several years, the Office of Technology Assessment has been conducting a comprehensive examination of structural changes underway in the U.S. economy. The project looks at change driven by trade, new technology and new patterns of consumer demand in order to discover areas where Federal rules and incentives developed to promote U.S. growth and prosperity may be based on outdated paradigms of industrial organization and growth.

Chairman **Gibbons**. Mr. Kelly, I can't hear you. Could you get that microphone a little closer?

Mr. **Kelly**. All right.

Chairman **Gibbons**. Thank you.

Mr. **Kelly**. We'll get some technology working for us.

Is that better?

Chairman **Gibbons**. Yes, sir.

Mr. **Kelly**. One of the systems we chose to examine in detail was the network of enterprises that produce fiber, convert fiber to fabric, fabric to apparel, and other end uses, and present the final result to consumers and retail stores.

When we began, we expected the major issue would be finding a way for the United States to gracefully retire from a sector of the economy that seemed destined to move to less developed countries following the logic of the product cycle.

The reasons seemed obvious. The industry is an old one, and similar production technologies are available throughout the world. Many parts of the industry are highly labor intensive, and much of the labor required is unskilled relative to other manufacturing enterprises.

During the 1980's, net imports grew rapidly. Most U.S. textile machinery producers had fallen behind producers in other nations in the production of the state-of-the-art equipment.

Digging a bit deeper, however, we were surprised to discover that this old U.S. industry was in the midst of a radical technological transformation, and that there was every reason to believe that America's textile and apparel enterprises can enjoy a comparative advantage in a wide range of markets and can continue to provide significant numbers of jobs for the foreseeable future.

If the U.S. textile and apparel firms successfully complete the transition now underway, however, the industry that emerges will not be the same as it was a generation ago. The traditional industry seems destined to be replaced by new technology, imports, or some combination of both. The industry that will remain at the turn of the century is likely to be a high technology manufacturing enterprise, bearing closer resemblance to sophisticated manufacturing sectors elsewhere in the economy than to long-established norms of traditional labor intensive weaving and apparel assembly.

While the pace of progress is uneven, parts of the U.S. textile and apparel industry are becoming major users of advanced communications and robotic production technology. In fact, productivity in the textile industry grew nearly twice as fast as the average productivity grows for the rest of manufacturing.

But improvements in the productivity of individual firms or even individual sectors of the textile and apparel industry can only go so far in improving the overall productivity of the integrated system. It takes approximately 66 weeks for fiber to pass through textile firms and be assembled into apparel, and finally offered for sale in a retail outlet. Apart from the enormous inventory costs involved in this process, such a cumbersome chain of production makes it difficult for a retailer to respond rapidly to changing patterns of consumer tastes and needs.

Since retailers have often needed to guess which products will be popular over a year in advance, mistakes have been inevitable. A high price has been paid in the form of forced markdowns of unwanted products and from sales lost because desired sizes and styles were out of stock.

In the past 2 years, the industry has begun to experiment with quick response networks, linking retailers to apparel producers, apparel producers to textile facilities, and apparel suppliers and textile firms to their suppliers. Four industry councils have been formed during the past year with the goal of developing standards and protocols for transportation, communication, invoicing, billing, inventory control, and reorders. Quick response networks may be able to reduce reorder cycles to months, or even weeks.

Now, while sophisticated foreign producers may also be able to participate in the rapid response networks, those lacking the most advanced communication, production, and transportation equipment will have considerable difficulty participating.

The technology of textile and apparel production has begun to be matched by progress in textile products themselves. Unexpected markets are being discovered in applications ranging from medicine to civil engineering.

Now, assuming that the U.S. textile and apparel industries can continue to play a significant role in the national economy, a number of difficult issues need to be faced both by the private and by the public sector.

First, are private levels of investment in the industry adequate or have defects in U.S. investment markets forced an overly short-term view? The answer appears to be that while textile producers are making significant investments, they could do more. On the other hand, until very recently, most apparel producers had never seriously considered major capital investments.

The second question is whether private investment in research and development is adequate. The answer seems to be no. The entire textile and apparel industry invested about a half of one percent of gross sales in research and development in 1983, and that is about one-seventh of the manufacturing average.

Virtually all important innovations in textile production has been developed by Japanese, West German, or other European firms, who often pool research efforts through trade associations or consortia that are supported, or at least facilitated by governments.

The textile and apparel industry invests one-half of 1 percent of their sales in research and development, and the average for U.S. manufacturing is around 3½ percent of gross sales, so the ratio is 7.

And I pointed out that almost all of the new production technology and textile manufacturing has been developed by either the Japanese or German firms. In fact, it is a case where U.S. producers have benefitted enormously from technology developed abroad and, if anything, made more sophisticated use of it than many foreign producers.

The United States has begun to develop consortia of its own. It is called the Textile/Clothing Technology Corp., or $(TC)^2$ for short. And this appears to provide a very promising vehicle for research into apparel assembly. This effort combines funds from industry, labor unions, and the U.S. Department of Commerce.

The third question, whether levels of public support for research and development are adequate? This, of course, is a matter for public debate. What is clear is the Federal support for the research and development in this area is small in comparison with the resources being devoted to the problem abroad. Japan's Ministry of International Trade and Industry is sponsoring an ambitious program called the Automated Sewing System Technology Development Association, and has committed around $60 million over a 5-year program.

The European Economic Community's Basic Research in Industrial Technologies in Europe, or BRITE program, supports about a dozen research projects, focusing on textiles and apparel.

The fourth question is whether enough is being done to retrain the workers in textiles and apparel industries. Most of the employees in the U.S. textile and apparel industry will either have their jobs eliminated or radically changed as the industry is transformed by trade and technology during the next two decades.

In 1984, the U.S. textile and apparel industry provided approximately 2 million jobs. This is about one-third fewer jobs than would have been generated in 1984 had domestic demand been met by an industry operating with 1972 productivity and 1972 trade patterns. It is clearly difficult to separate productivity and trade effects if only because productivity gains are motivated, at least in part, by the pressure of trade.

During the next two decades, most of the jobs eliminated by either trade or productivity enhancing technology will be the low-scale, low-wage positions now held largely by women and minorities. Many of these people have few other options in their local community. Most of the new jobs created will involve installation, operation, or repair of comparatively sophisticated equipment.

The fifth question is whether the industry has been sufficiently aggressive in pursuing export markets for its products. While there was a marked improvement between 1985 and 1986, U.S. exports of textiles and apparel have been stagnant or falling since 1980. While the total amount of exports were never more than a few percent of domestic production, their loss certainly should not be ignored.

Sixth, will the industry be able to change fast enough to survive the rapid growth of imports? This is among the most vexing issues of all, and the one which, of course, was addressed in some detail by the previous testimony.

The textile industry, which continues to be profitable in spite of the fact that it is losing domestic market share, has already taken major steps to improve productivity. The apparel sector, which has never been a major purchaser of capital equipment in the past, seems prepared to make a major transformation and invest in newly developed production equipment like the advanced sewing equipment being developed by the TC-squared organization that will be offered for sale by the Singer Corp. later this year.

Despite these developments, net imports of textiles and apparel have increased significantly over the past few years. This has occurred despite a formidable array of tariffs and quotas.

Now, we are all probably familiar with Ricardo, and know that in principle, all barriers to free trade result in an inefficient allocation of resources and higher costs to the consumer. The problem is finding an honest way to apply these principles to the current economic environment, where comparative advantage increasingly depends on an ability to respond dynamically to changing trade conditions, and where government intervention in the marketplace here and abroad continues to play a significant role.

In the absence of adequate quantitative techniques, political judgment must substitute for a close calculus of costs and benefits in many cases.

We are witnessing what must be considered a close race between industrial restructuring based on advanced technology, and the advance of competent and determined foreign producers operating with the support of their governments. The outcome of this race depends primarily on the speed, skill, and vision with which the managers of the nation's textile and apparel firms react to a radically changing set of problems and opportunities.

It will also depend heavily on sound public management in research, retraining, trade policy, and other areas.

If the Government elects to help with the industry's transformation, the issue becomes one of determining the most efficient methods. In public and in private management, we are convinced that success depends on a skillful coordination of programs and the interrelationships are crucial. No single investment and no single policy instrument is likely to succeed in isolation. Now, public policy can influence the future of the industry in a variety of ways.

It can create a national investment climate conducive to long-term investment, risk taking, and private support of research and development; public support of research and development can be undertaken that is likely to pay high social returns; a program can be developed that combines incentives for private investment in training and retraining with the use of public funds; and a coordinated trade policy can be implemented that involves coordination of export promotion and import regulation.

We concluded that unless significant new steps are taken by some combination of private and public action, there is reason to be concerned about the future of parts of the U.S. textile and apparel industry.

Given appropriate responses to the issues outlined in this discussion and the financial support to back up such responses, we are convinced that this industry has a bright future in the United States. A large and profitable network of enterprises can be maintained that is capable of creating a significant number of good jobs, while reducing the price and increasing the variety and quality of textile and apparel products sold to American consumers and industrial customers.

Thank you, Mr. Chairman. I will be pleased to answer questions.

[The statement of Mr. Kelly follows:]

TESTIMONY OF

HENRY C. KELLY, SENIOR ASSOCIATE
OFFICE OF TECHNOLOGY ASSESSMENT
U.S. CONGRESS

before the
SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

June 2, 1987

Background

For the past several years, the Office of Technology Assessment has been conducting a comprehensive examination of structural changes underway in the U.S. economy. This project looks at change driven by trade, new technology, and changing patterns of consumer demand, in order to discover areas where federal rules and incentives developed to promote U.S. growth and prosperity may be based on outdated paradigms of industrial organization and growth.

As the project developed, we discovered that many conclusions being drawn about the hypothetical "deindustrialization" of America or movement to an "information economy" created more confusion than enlightenment. In many cases, diverging conclusions reflect little more than defects in available data. Determining that macroeconomic statistics could provide only a partial answer to the questions we posed, we chose to focus our study around eight basic economic systems--networks of businesses that combine operations to deliver amenities like housing, food, and transportation to consumers. One of the networks we chose to examine in detail was the system of enterprises that convert fiber to fabric, fabric to apparel and other end uses, and present the final result to consumers in retail stores.

Many of these networks are changing in fundamental ways. We have found that many of the most important changes in the structure of the U.S. economy as a whole, such as the the growing importance of transactional services (for example, legal, insurance, and financial services) and the declining role of energy and material inputs in production, can best be understood by studying transformations in entire networks.

Since our research in each economic sector revealed interesting stories that could not be covered in detail in an integrated analysis of economic transformation, we have released a number of individual sector studies. The OTA Special Report, The U.S. Textile and Apparel Industry: A Revolution in Progress, is one such study.

The report was based on work by Professor Gordon Berkstresser of the School of Textiles at North Carolina State University and his colleagues, Dr. Ruth Ruttenberg, an OTA consultant, and Daniel Chenok of OTA.

The Transition

When we began looking into the U.S. textile and apparel industry, we expected that the major issue would be finding a way for the United States to gracefully retire from a sector of the economy that seemed destined to move to less developed countries, following the logic of the "product cycle" (first described by Ray Vernon in 1966). The reasons seemed obvious. The industry is an old one, and similar production technologies are available throughout the world. Many parts of the industry are highly labor intensive, and much of the labor required is unskilled relative to other manufacturing enterprises. Rates of compensation paid to workers (wages plus benefits) in the textile industry are two-thirds the national average, and have lost ground since the 1950s; compensation to apparel workers fell from two-thirds of the national average in the mid 1950s to one-half of this average in 1985. Net imports are growing faster than domestic markets. During the 1980s, net imports have grown at a rate that, if continued, could mean the loss of certain parts of the U.S. industry. Most U.S. textile machinery producers have fallen behind producers in other nations in the production of state of the art equipment. While these U.S. firms once dominated domestic and world markets, more than 90 percent of their foreign sales are now replacement parts for old U.S. equipment. None of these factors seemed to argue for a U.S. comparative advantage in the production of textiles and apparel.

Digging a bit deeper, we were surprised to discover that this old U.S. industry was in the midst of a radical technological transformation. There is every reason to believe that America's textile and apparel enterprises can enjoy a comparative advantage in a wide range of markets, and can continue to provide significant numbers of jobs for the foreseeable future. While the industry may not be able to compete in all domestic markets that it enjoyed twenty years ago, the results of our research indicate that portions of the domestic market can be recovered, and that exports can be expanded.

If U.S. textile and apparel firms successfully complete the transition now underway, however, the industry that emerges will not be the same as it was a generation ago. The "traditional" industry seems destined to be replaced by new technology, imports, or some combination of both. The industry that will remain at the turn of the century is likely to be a "high technology" manufacturing enterprise, bearing closer resemblance to sophisticated manufacturing sectors elsewhere in the economy than to long-established norms of traditional, labor-intensive weaving and apparel assembly.

Clearly, our original thoughts about the industry were wrong.

Technology and the Future

While the pace of progress is uneven, parts of the U.S. textile and apparel industry are becoming major users of advanced communications and robotic production technology. High-speed water- and air-jet looms have replaced the clanking shuttles of a previous generation. Robots retie breaks in yarns. Telecommunications networks handle orders and invoicing. The apparel industry, which once seemed immune to changes in productivity, appears to be on the brink of a major change. Computers can now convert designs to patterns laid efficiently on cloth, and can even give instructions as to high-speed laser cutting machinery. Fundamental breakthroughs are being made in the vexing problem of handling single plies of limp material; this fall, the Singer Sewing company plans to introduce the first fully robotic sewing system, capable of assembling a sleeve or trouser leg, into commercial use--a potentially major development in the productivity of apparel assembly.

But improvements in the productivity of individual firms, or even individual sectors of the textile and apparel industry, can go only so far in improving the overall productivity of the integrated system that converts natural or synthetic fiber into a product on the retail shelf. It takes approximately 66 weeks for fiber to pass through textile firms, be converted to yarn and sewn into fabric, be assembled into apparel, and finally be offered for sale in a retail outlet. Apart from the obviously enormous inventory cost involved in this process, such a cumbersome chain of production makes it difficult for a retailer to respond rapidly to changing patterns of consumer taste and need. Since retailers have often needed to "guess" which products will be popular over a year in advance, mistakes have been inevitable; a high price has been paid in the form of forced markdowns of unwanted products, and from sales lost because desired sizes and styles were out of stock. A recent industry study indicates that modest improvements in the dynamics of the fiber-to-retail network could lead to savings equivalent to 12% of gross retail sales.

In the past two years, the industry has begun to experiment with "quick response" networks, linking retailers to apparel producers, apparel producers to textile facilities (and other apparel suppliers), and textile firms to their suppliers. Four industry councils have been formed during the past year, with the goal of developing standards and protocols for transportation, communication, invoicing, billing, inventory control, and reorders. "Quick response" networks may be able to reduce reorder cycles to months, or even weeks. Such a system could have the paradoxical effect of saving money for the fiber to retail chain taken as a whole, while actually reducing the productivity of certain individual steps--because of batch rather than continuous mass production, for example, or through use of UPS trucking instead of full-trailer deliveries. Much work remains to be done, however, and complaints about the responsiveness of domestic producers are still being heard.

It appears to us the "quick response" system could help restore the competitiveness of American producers in the crucial, and highly volatile "seasonal market," and in much of the "fashion" market. These markets, which represent over two-thirds of all apparel sales, have been heavily penetrated by imports. While sophisticated foreign producers may also be able to participate in the rapid response networks, those lacking the most advanced communication, production, and transportation equipment will have considerable difficulty participating. Indeed, the "hidden costs" of foreign production are likely to become more significant as reorder cycles are reduced: imports involve necessary delays in shipment and customs transactions; air shipments are possible, but add cost--particularly if comparatively small batch shipments are needed. Moreover, in spite of their high technology character, "quick response" networks depend heavily on informal contacts and trust, which may be difficult to maintain across long distances and national boundaries.

Progress in the technology of textile and apparel production has begun to be matched by progress in textile products themselves. Unexpected markets are being discovered in applications varying from medicine (textiles were used in the first artificial heart) to civil engineering (where geotextiles may be on the brink of much wider use).

Of course, survival of this industry is important not only for those people directly involved in textile and production manufacturing. Also affected are the industries who depend on sales to textile and apparel firms.

Leaving aside the large numbers of jobs directly and indirectly associated with warehousing and retailing operations--jobs not heavily dependent on whether the products sold are imported or produced domestically--at least one-third of all jobs created by textile and apparel manufacturing are found outside this industry. Jobs linked to textiles and apparel can be found in farming, chemicals, other natural resources, trade, transportation, and a variety of the "service" industries (including finance, communications, law, and accounting) that have played such a large role in U.S. job generation over the past decade.

Policy Problems and Issues

Assuming that the U.S. textile and apparel industry can continue to play a significant role in the national economy, a number of difficult issues need to be faced by both the private and public sector.

(1) Are private levels of investment in the industry adequate, or have defects in U.S. investment markets forced an overly short-term view? The answer appears to be that while textile producers are making significant investments, they could do more; on the other hand, few apparel producers have seriously considered major capital investments. Indeed, while some progress has been made, few apparel firms have technical staffs capable of making reasonable investigations of how new technology might help them.

(2) Is private investment in research and development adequate? The answer seems to be no. The entire textile and apparel industry invested about 0.5% of 1983 sales in research and development, less than one-seventh of the manufacturing average of 3.9%. Virtually all important innovations in textile production have been developed by Japanese, West German, or other European firms, who often pool research efforts through trade associations or consortia that are supported, or at least are facilitated, by governments. A new U.S. consortia, the Textile/Clothing Technology Corporation ("TC-squared"), provides a promising vehicle for new research into apparel assembly. This effort combines funds from industry, labor unions, and the U.S. Department of Commerce; the Singer equipment, noted earlier, represents one product of this group's research.

(3) Are levels of public support for research and development adequate? This is, of course, a matter for public debate. What is clear is the Federal support for research and development in this area is small in comparison with the resources being devoted abroad. Japan's Ministry of International Trade and Industry (MITI) is sponsoring an ambitious program, the "Automated Sewing System Technology Development Association," and has committed $60 million over five years. The European Economic Community's "Basic Research in Industrial Technologies in Europe" (BRITE) program supports about a dozen research projects focusing on textiles and apparel.

As appropriated by Congress, the Commerce Department will contribute $3.35 million to the TC-squared organization in 1987, and the Defense Department's Defense Logistics Agency (DLA) has an "Industrial Preparedness Program," which is spending $2 million in

1987 for a "Military Sewn Products Automation" project. While some of the Defense funding goes for problems faced only by the military, such as clothing for chemical warfare, more than half goes for generic research relevant to private textile and apparel markets.

(4) **Is enough being done to retrain the workers in textiles and apparel industries?** Most of the employees in the U.S. textile and apparel industry will either have their jobs eliminated or radically changed as the industry is transformed by trade and technology during the next two decades. In 1984, the U.S. textile and apparel industry provided approximately 2 million jobs. This is about one-third fewer jobs than would have been generated if 1984 domestic demand had been met by an industry operating with 1972 productivity and 1972 trade patterns. It is clearly difficult to separate productivity and trade effects, if only because productivity gains are motivated at least in part by the pressures of trade; industry employment would have increased approximately 8 percent if 1984 demand were met using 1972 trade patterns and 1984 productivity. During the last two years, of course, trade has played a greater role than productivity in the U.S. apparel industry, due to the sharp increase in imports.

During the next two decades, most of the jobs eliminated by either trade or productivity-enhancing technology will be the low-skill, low-wage positions now held largely by women and minorities. Many of these people have few other options in their local communities. Most of the new jobs created will involve installation, operation, or repair of comparatively sophisticated equipment; there are already local shortages of individuals capable of installing and maintaining high-technology textile production equipment. It is extremely unlikely that the people displaced as a result of the industry's transformation can fill new positions without significant training and other assistance from their companies, or from publicly supported training programs. It is likely to be even more difficult for individuals who are forced to shift industries altogether.

(5) **Has the industry been sufficiently aggressive in pursuing export markets for its products?** While there was a marked improvement between 1985 and 1986, U.S. exports of textiles and apparel have been stagnant or falling since 1980. U.S. textile and apparel exports were never above about 3 percent of domestic production, but their loss should not be ignored. Declines undoubtedly resulted in part from a lack of aggressive marketing by private producers, and the difficulties that were created by an overvalued dollar in the first half of this decade. Some of the problem, however, lies with intense foreign country protection of home markets, and with the comparatively small investment made by the U.S. government in promoting and facilitating exports.

(6) **Will the industry be able to change fast enough to survive the rapid growth of imports?** This is among the most vexing issues of all. The textile industry, which continues to be profitable in spite of the fact that it is losing domestic market share, has already taken major steps to improve productivity. It purchased $1.7 billion in new plant and equipment in 1986. The apparel industry, which was never been a major purchaser of capital equipment in the past, seems

prepared to make a major transformation, and invest in newly developed production equipment like the advanced sewing equipment being developed by the TC-squared organization.

Despite these developments, imports of textiles (measured in dollars) grew 26 percent in 1986 and imports of apparel grew 14 percent, while domestic production increased only 1.9 percent. This has occurred despite a formidable array of quotas and tariffs. Are the existing programs adequately enforced? Can they be adequate even if enforced? Can any system of quotas be designed that can serve the long-term interests of the economy? As with all current arenas of trade, this issue is further complicated by the fact that U.S. policies to protect domestic textile and apparel producers cannot be viewed in isolation from attempts to open foreign markets. Potential benefits from exports in one area must be weighed against action taken to block imports in other parts of the economy, in negotiating forums like GATT.

We are probably all familiar with Ricardo, and know that in principle all barriers to free trade result in an inefficient allocation of resources and higher costs to the consumer. The problem is finding an honest way to apply these principles to the current economic environment, where comparative advantage increasingly depends an ability to respond dynamically to changing trade conditions, and where government intervention in the marketplace here and abroad continues to play a significant role. In the case of textiles and apparel, there is the added complication that some of the benefits of trade may not be enjoyed by consumers, but go instead to middlemen. Consumer price elasticity is obviously less relevant if the prices actually paid by consumers do not reflect lower import costs. In the absence of adequate quantitative techniques, political judgement must substitute for a close calculus of costs and benefits.

We are witnessing what must be considered a close race between industrial restructuring based on advanced technology, and the advance of competent and determined foreign producers operating with the support of their governments. The outcome of this race depends primarily on the speed, skill, and vision with which the managers of the Nation's textile and apparel firms react to a radically changing set of problems and opportunities. It will also depend heavily on sound public management in research, retraining, trade policy, and other areas suggested earlier. In both cases, there will be times when short term measures of industry performance, or the costs and benefits of public programs, will not give an adequate view of the long-term benefits of investment. The money to pay for research and new investment, of course, must ultimately be raised directly or indirectly from U.S. consumers, who would also enjoy any benefits of the transformation now underway in the industry.

If government elects to help with the industry's transformation, the issue becomes one of determining the most efficient methods. In public and in private management, we are convinced that success depends on a skillful coordination of programs. The interrelations are crucial. No single investment, and no single policy instrument, is likely to succeed in isolation. Public policy can influence the future of the industry in a variety of ways:

(1) creation of a national investment climate conducive to long term investment, risk-taking, and private support of research and development;
(2) public support of research and development that is likely to pay high social returns;
(3) a program that combines incentives for private investment in training and retraining with use of public funds; and
(4) a trade policy, involving coordination of export promotion and import regulation.

Unless significant new steps are taken by some combination of private and public action, we believe that there is reason to be concerned about the future of parts the U.S. textile and apparel industry. Given appropriate responses to the issues outlined in this discussion, and financial support to back up such responses, we are convinced that this important U.S. industry has a bright future. A large and profitable network of enterprises can be maintained that is capable of creating a significant number of good jobs, while reducing the price and increasing the variety and quality of textile and apparel products sold to American consumers and industrial customers.

Chairman GIBBONS. The gist of your report as I read it, could you give me that again, the last two paragraphs?

Mr. KELLY. Unfortunately, I have not marked the paragraphs. I had a list of four policy areas that I think should be combined, and then the statement about the future of the industry.

Chairman GIBBONS. What happens is that some members of our committee grab this report of yours and shake it. "You know, if we don't do something drastic like pass this bill, the textile industry is just going out of existence," they say. And they read your conclusion up here in the first chapter, but what you say here at the end of your statement doesn't sound anything like the conclusion up here in the first chapter.

You say—let me read it to you.

"Unless policy action is taken in the next few years"—I am reading on page 3, chapter 1, the last paragraph, top right-hand side. "Unless policy action is taken in the next few years, there is reason to be concerned about the very existence of many parts of the industry." I think the voice always drops when they hit "many" or "parts" of the industry. "While it is reasonable to debate whether the Federal Government should act to preserve U.S. textile and apparel enterprises, it is becoming increasingly unlikely that the industry will be able to maintain its present position in the U.S. economy without action to counter the rising tide of imports."

Now, what I heard you say at the end of your last statement, and I thought you were reading it, but perhaps you weren't, was that you don't share that view. It's a pretty good industry, is what I thought I heard you say.

Mr. KELLY. I think what I was trying to say in both cases was the same thought, perhaps more articulately in one place than another. There is certainly reason to be concerned about major portions of this industry.

Imports, certainly over the past couple of years, have made significant erosions. It's an unassailable fact.

Now, the primary responsibility for taking action against this problem is plainly in the hands of the private sector. We think, however, that there are a number of things that the Government can do to facilitate the transformation of this industry into one that has a bright future in the United States.

The crucial point that I would like to emphasize is that the transformation to a competitive—to an industry with a true comparative advantage is possible, that it can be undertaken, that the potential for a bright future is there.

Now, achieving it requires a significant amount of investment and research and innovation which we think can be. There are a variety of ways that this can be facilitated by Government action. And we list a number of them. The other point we would like to emphasize is the need to coordinate the approach rather than single out a single action.

Chairman GIBBONS. I will admit that this industry is in transition, it is in revolution as you call it.

It seems to me there is going to be a lot of shakeout of the undercapitalized, the older and less aggressive parts of the industry. But it seems to me—and that's what worries me about your report—

that you think that unless Government gets really actively involved in this thing, it is just going to go out of existence. The impression that people have when they read your report to us, is that unless we do something dramatic here, like pass this trade bill, there's not going to be any textile or garment industry in the United States.

Now, do you share that opinion?

Mr. KELLY. No, we don't. And, of course, OTA does not recommend any specific policy.

Chairman GIBBONS. I know that, but you come so close to recommending it, that's why I ask you that question.

But go ahead.

Mr. KELLY. Well, in fact, what we suggest is that import penetration has been proceeding, and I think that that's an unassailable fact.

We also suggest areas where the Government could intervene. I listed several areas. The fact of the matter is that we are never talking about absolutes here. We are talking about what fraction of the domestic market the domestic industry will be able to enjoy. In fact, it is doing quite well on things with low labor content and in the high fashion end of the market. What we are really talking about is the significant amount of intermediate labor content products that we have begun to lose. The line that separates our comparative advantage from our comparative disadvantage can be moved back and forth by investment in a variety of technologies that we are talking about here.

The rate at which this is introduced can be influenced by Government action. We suggest four or five different areas where this action could be useful. We certainly don't single out one as the single resolution of this problem.

Chairman GIBBONS. Who is Ruth Ruttenberg?

Mr. KELLY. She was a writer and consultant that helped us pull together an enormous amount of material—work that was done for us by other contractors.

Chairman GIBBONS. Is she connected with the fabric industry?

Mr. KELLY. Not to my knowledge. She had done previous work for OTA looking at the effects of new technology on the health of textile workers. She had done a nice job of reviewing this technology for our health program. They recommended her to us.

Chairman GIBBONS. Well, in reading your report, I could identify about everybody on here as being connected with the textile industry and garment industry in some ways, except Ruth Ruttenberg, and I just didn't know who she was.

Why in assembling a panel to study something like this, did you just take it all from one side? It seems to me you left out everybody after the textile product leaves the factory.

Mr. KELLY. Well, the authors of the report were primarily technical specialists in the textile and apparel industries. They were people from North Carolina State University's School of Textiles.

The emphasis of this report was not on a cost-benefit analysis of any particular trade policy. Obviously, CBO has written a report on this, and we made an effort to reproduce that work.

The center of our work here was on the issue of: what could a transformed industry look like? Could it have a part of a productive American manufacturing sector over the next 15 or 20 years? In order to answer that, we felt the need to get into the details of how this industry operated. We were unsatisfied with the macroeconomic statistics that are always used to characterize what's going on in this industry. And if you want to look below those macroeconomic statistics, you have to go to somebody that understands the technology. For that reason, we went to the School of Textiles at North Carolina State and had the report thoroughly reviewed by people from Du Pont and other places who understand this industry's technology.

Chairman GIBBONS. Well, I must admit I don't have time to read most of your reports. Unfortunately for me. But in the reviewers that you selected here, it looks to me like you've got just a panel from one side of the issue. I don't recognize anybody on that panel as having been connected with the other side of the issue.

Mr. KELLY. Well, to be honest with you, we didn't select them with an idea towards their biases on the policy discussion. We chose them for their knowledge of what was going on in the technology of production.

In fact, they didn't comment in particular on the last two chapters.

Chairman GIBBONS. Well, you talked about the retailer's role in this report, but you had nobody on the list of reviewers from the retail industry or anyone who I would think represents consumers at all, Mr. Kelly.

Mr. KELLY. Well, this is not intended to be a balanced OTA panel in that sense. This was a special report, and we turn these out primarily as technical pieces. The people who we turned to most for knowledge of what is happening in the retail enterprises were the people from Du Pont who have studied the quick response networks in some detail and have worked with the retail industry considerably. And I think we give quite fair treatment to technologies in the retail sector.

Chairman GIBBONS. Well, I still find a fundamental difference in what you say in parts of this report and what you said in the closing lines of your opening statement.

As I recall the closing lines of your opening statement, you were optimistic that the industry was going to survive, that it was——

Mr. KELLY. Well, if I can quote you precisely what I said, I said that unless significant new steps are taken by some combination of private and public action, there is reason to be concerned about the future parts of the industry. That's on the one hand.

On the other hand, given appropriate investment, there is reason to be cheerful about it. And I think it's an important point to recognize that this industry is not necessarily one which should fade quietly into oblivion but, in fact, it can be a part of a restructured American manufacturing sector.

Now, whether it will or not is, of course, a matter of public and private choice.

Chairman GIBBONS. Well, what would be the most important actions you think the textile and the apparel industry could take?

Mr. KELLY. Well, if we are talking about what they can do privately which is where all of the real activity must occur, I think they need to invest more into research, and into cooperative research and development projects like this (TC)[2].

They should work together as an industry. One of the difficulties that they have traditionally faced is that the retail people, the apparel people, the textile people and the fiber people have operated as separate camps. If they are really going to work together to compete in a modern economic environment, they are going to have to coordinate in a variety of ways. One of the ways that they can do this is quick response network, which actually moves information freely back and forth through the system so that they can respond to an upturn in consumer demand within a matter of weeks and get something on the counter.

Now, you can't do that by just turning to the apparel industry. You have to make the whole system work. And I would guess if there's a single key to this, it's the spirit of cooperation and coordination, both in the production level and in the research level.

Chairman GIBBONS. Well, having made this report and having studied the industry as you have, do you think the passage of the textile bill that is before the Congress now would improve the competitive position of the industry?

Mr. KELLY. We are not in a position to recommend that, and we didn't study it in detail. We list in the back of our book a long set of things which, of course, include that bill, but we did not do a detailed cost benefit study. For that I would have to refer you to the CBO.

Chairman GIBBONS. Well, let me ask the CBO then.

You have studied the industry, you've heard the OTA, you've read the reports. Do you think the passage of this bill would be in the best interest of the United States?

Mr. GRAMLICH. I am mainly going to repeat the points made in my statement, Mr. Chairman. CBO is not in the business of commenting on specific bills. We just lay out options. But I will say that there are arguments why bills like this one might be in the interest of the particular industry and at the same time would still not be in the interest of the whole country. Those arguments would pertain to this bill as well.

Second, we have a lot of analysis in our report showing that efforts to protect the textile and apparel industry have gone on for 30 years now and that they really have not made that industry more competitive in any observable respect.

Chairman GIBBONS. So you have got to say they are a waste of money?

Mr. GRAMLICH. That is the implication of our analysis.

Chairman GIBBONS. We have had a lot of trouble with the statistics that supposedly buttress the case for protection. We've had reports of penetration by the industry as high as almost 60 percent.

What have either of you got to say about the statistics we're using? How is the best way to measure the penetration, what is the significance of the penetration, and what are the maximum amounts of penetration that you have discovered?

Mr. GRAMLICH. I'm going to defer to Mr. Kaplan on this question, Mr. Chairman.

Chairman GIBBONS. All right. Fine. Mr. Kaplan.

Mr. KAPLAN. Thank you, Mr. Chairman.

Generally, in dealing with industries that have extremely diverse products such as the textile and apparel industry, it is very difficult to come up with a meaningful physical measure that allows us to aggregate accurately the outputs of the different segments of the industry. For that reason, I think that a value measure is probably the most preferable measure of import penetration and would probably give you the best indication of the effect of imports on domestic resources.

Chairman GIBBONS. You are talking about the dollar value?

Mr. KAPLAN. That is correct.

Chairman GIBBONS. Where they weigh them by pounds or by square yard equivalents, those are not as good?

Mr. KAPLAN. Those are the physical unit measures.

Chairman GIBBONS. Yes. Well, what's the highest penetrations that you find in that industry?

Mr. KAPLAN. We recently responded to a request by some members of the staff of the subcommittee. In looking at the data, I concluded that the statistics that had been published probably don't accurately reflect the import penetration rate. Using value of shipments probably understate import penetration somewhat. Although it is substantially less than import penetration measured in physical units, using value the unit data, is probably closer to the mark.

The value of the imports are understated because the inbound freight insurance on the imports, as well as the duties collected by the United States are not included in those numbers.

Chairman GIBBONS. Do you anywhere find penetrations as much as 50 percent?

Mr. KAPLAN. Using the physical measure, there is a way of constructing it to get that number. But I don't think that is a reasonably accurate picture of the import penetration into the U.S. industry.

Chairman GIBBONS. Would it be appropriate to say that any import penetration based upon value that's more than 33 percent, it involves double counting?

Mr. KAPLAN. I wouldn't know.

Chairman GIBBONS. Well, is there double counting going on in some of the import penetration figures that are presented to us?

Mr. KAPLAN. In the apparel and in the textile industries, there is double counting in some sense if you look at each separately. If you include the imports of textiles in apparel as textiles, you are in some sense counting the apparel twice. You are both counting the apparel as an apparel import and you are counting the textile in the apparel as a textile import. There is some information to be garnered from doing that, but it can give a misleading impression of what is happening because the apparel is essentially being counted twice—both as a textile and as an apparel import.

Chairman GIBBONS. Isn't true that the yarn gets counted twice and the cloth gets counted twice when you import a garment?

Mr. KAPLAN. I cannot comment for certain on that.

Mr. KELLY. If I could comment on that, Mr. Chairman.

Chairman GIBBONS. Yes, sir.

Mr. KELLY. There are two different ways of counting as I understand it, and I don't claim to be an expert in this, but there are two different ways of counting for the fabric used in apparel. Some accounts include those items as imported textile products, and some include them as imported apparel products. The people that we have dealt with, when we asked them this question, claim that they have done it consistently, and that when you add the two numbers together, you get the total imports of all textile and apparel products.

Of course, you can get into trouble if you are dividing one series by another without taking the care to make sure that you are not double counting.

But the Department of Commerce and the American Textile Manufacturers' Institute at least claim that they are not double counting as long as you use their series in their published form.

Chairman GIBBONS. Well, I am not accusing the Department of Commerce or those people of doing it. But some of the industries that have appeared before us appear to have done it.

I'm reading now from a Congressional Budget Office, May 27, 1987, document from Daniel Kaplan.

And on page 2 it says, "Moreover, these expanded statistics contain little additional information beyond what is contained in import penetration measures of the apparel industry. They count foreign produced clothing as both apparel and textile imports."

Now, that's double counting.

Mr. KAPLAN. That may have been worded slightly imprecisely. I think it's expanded further in the memo. The textiles are being counted as textiles and the textiles in the apparel are being counted as textiles.

Chairman GIBBONS. That's double counting.

Mr. KAPLAN. In some sense, it is double counting. But if you wanted to get——

Chairman GIBBONS. That's how you get 59 percent penetration imports.

As I say, anything that is over 30 percent penetration import is double counting.

Mr. KAPLAN. Again, I have not reviewed the statistics with that kind of detail to be able to make——

Chairman GIBBONS. Well, I've reviewed the statistics enough and I challenge anybody to tell me that it is not double counting if you don't count the thread and the fabric and the clothing in the textile column and in the garment column, and then add them together. That's double counting, and that's what they do.

Mr. KAPLAN. Excuse me. If you were to count individually all of those pieces and add them up together in the textile industry or in the apparel industry, that would be double counting.

Chairman GIBBONS. Well, that's how they get their figures up to 59 percent. There is no other way.

Is there anybody out in the audience, or anybody who reads this has got any argument on that, I would like to see it. These figures have baffled me from the very beginning. We get figures from the Department of Commerce and from the Census people and everything else. The penetration never goes above 33 percent. But when the witnesses come in, they get it up to 60 percent. And the only way they can get it up is by double counting. When they go into what they call the expanded statistics, which is just double counting, you know.

Let's see. Mr. Pease?

Mr. **Pease**. Mr. Chairman, I think you have done very well in asking the basic questions. But I would just like to turn to Mr. Kelly for a moment.

Mr. Kelly, the witnesses that we have had from the textile and garment industries who have come in here have quoted several times the OTA study in support of their bill, posing limitations on imports.

As I read and listen to your testimony this morning, if I were in the industry, I wouldn't find a whole lot of comfort in what you have said and testified to this morning.

Am I missing something? Why is it that there seems to be this disparity?

Mr. **Kelly**. Well, I am happy to have the opportunity to clarify this.

The fact of the matter is that OTA reports are designed primarily to be a tool to facilitate policy debates. They are frequently quoted by both sides in support of what they want to do because we try to be reasonably honest in the way we present the information.

It is certainly possible to use the information here to buttress an argument to support this bill. It could also be used to buttress an argument against it, and been used in that way as well.

Mr. **Pease**. Well, in your testimony today, you mentioned four things that could be done by way of public policy to influence the future of the textile and garment industry.

None of those four even remotely mentions restraints on imports.

Mr. **Kelly**. Well, the last one talks about trade policy. Of course, import quotas are one of the instruments that you can use. Our full report, in fact, lists quite a number of different things that can be done.

We like to think of trade policy as including both things to promote exports as well as things to restrict imports.

Mr. **Pease**. I see.

So when you say a trade policy involving coordination of export promotion and import regulation, the phrase "import regulation" includes the possibility of tariffs or quotas on imports coming in, is that right?

Mr. **Kelly**. Yes, sir. In our discussion in the report on that subject, we list probably 10 different things that have been suggested by one group or another.

Mr. **Pease**. Do you make a judgment as to the wisdom or efficacy of any of these four ways that public policy could influence the future of the industry, or do you just list them as possibilities?

Mr. **Kelly**. Well, as I said, this was not intended to be a detailed policy analysis. We suggested a list of possible actions in four different areas, and did not review them in detail.

If there's a single conclusion that we would suggest in this, it is the need to recognize that there are a lot of things the Government does that will influence the future of this industry, and they need to be considered in coordination.

But we certainly don't recommend any particular action either on research and development or trade adjustment or trade policy.

Mr. **Pease**. I see. Okay. Well, maybe I will get back to you in a little while.

Dr. Gramlich, I don't know quite what to make of your report. It appears to be sort of a standard defense of free trade. I don't know whether you employed consultants or not. I think our colleague, Bill Frenzel, could have been a consultant on this study of yours.

Are you telling us in this study essentially that we ought to adhere to free trade and not do anything at all to interfere with free trade, is that what you are saying?

Mr. GRAMLICH. The CBO tries to walk a very delicate line in these matters as does OTA. Our charter in the previous paper was to look at the deviations from free trade that have already taken place in these industries and to see if we could detect any instances where some notion of competitiveness was furthered by these deviations. Basically, we are saying the answer is no, that we can't identify any instances where previous deviations from free trade made the industry much more competitive.

Mr. PEASE. I see. At one point in your testimony, you say that even if further protection significantly increased the firm's profits, and the new cost reducing technology existed, firms would only invest in the new equipment if it offered a higher expected return in alternative investments. You mentioned that a couple of times, and I think it's basically true.

Indeed, in the steel industry, for example, the protection that was provided to the steel industry resulted in one major steel company essentially getting out of the steel business and going into the energy business in a big way.

But it seems to me that if this is really true, it would discourage us from trying to do anything at all to provide protection. If you look at the garment industry, for example, and say there is technology out there and new equipment that could be put in, but it's costly. And the future of the industry is certainly in some question no matter what you do.

There certainly ought to be other ways to invest one's money than in the garment industry and expect to get a higher rate of return. It seems to me that in an industry with somewhat a cloudy future facing import penetration, no matter what, that there will inevitably be other more productive ways to invest the capital. If that's the case, does that argue that there won't be any investment in that industry and, therefore, there's no reason why we should try to give the industry some breathing room so it might have some capital?

Mr. GRAMLICH. You have put your finger right on the problem, Congressman. I am not going to say there will never be circumstances where investment won't be promoted by import protection. But as our statement tried to point out, a lot of conditions have to be present for this to be true, and you have mentioned some of them. Not only do you have to provide the financial resources to the industry—and it's not clear that they can't borrow—but also you have to make this investment more profitable than alternatives. As you said yourself, there may be many reasons why investment in the industry won't be more profitable. In that case, protection won't do anything.

Now, in some cases it may do some things—namely where investment funds are provided to the industry. But we certainly didn't find many cases of that when we looked at the four industries in our study.

Mr. **Pease**. Well, what you have stated, it seems to me, is a theortical truth.

If a person has money to invest, the person is going to seek the highest return, wherever that return is, and it sort of assumes that there is a complete freedom in the flow of capital, as some people assume there is complete freedom in the flow of workers and go from one part of the country to another.

And yet if what you said was true, it seems to me that there wouldn't have been a dime of investment in the steel industry in the last 8 or 10 years. The return has been relatively low in steel. The prospects are not particularly good for an improvement.

Why would steel companies be investing their money in continuous casters when they could invest it in oil companies or take it out and buy IBM stock or do lots of other things?

So I guess my question is, it is not true that there are companies that are in the steel business or in the garment industry or in the textile industry where the managers and owners say we have been in this industry for 30 years, 40 years, we are textile people, we are garment people and, by gosh, we are going to stay here and compete and do the best we can until we run out of business. And the fact that we might be able to get a return of twice as much if we turn to making widgets instead does not deter them from staying in the garment business or in the textile industry.

Does that sort of reasoning go on?

Mr. **Gramlich**. Of course, it goes on. People will look at capital markets and they will look at their expertise and so forth, and they will allocate investment funds as they see fit.

But I think the question that must be asked in these kinds of deliberations is at the margin—namely, we have some marginal investment funds that might be influenced, and will these be influenced into a particular industry by protection? I am not going to say that they won't be. I think that the case is at best very debatable, however, given that there has not been much effect on investment in response to the quotas that we have had.

In the steel industry, for example, I gather that much of the investment has been in the small minimills where profitable opportunities exist.

Nobody would ever say that all investment in steel is unprofitable or in textiles or apparel. It is never that clearcut or unanimous. But if the question is whenever marginal funds go into these industries as a result of protection, I think the answer may be that they don't.

Mr. **Pease**. I know there are no precise figures, but when you say that the marginal investment, how much of the total investment might go into say the textile industry would be marginal investment, 5 percent, 20 percent, 50?

Mr. **Gramlich**. By marginal, I mean how much could be influenced by protection. That is the kind of question we have to deal with, and I can't give a number on that. But it seems to me that if protection was instrumental in stimulating added investment in an industry, you would notice such rises.

Of course, it may be that investment in the textile industry is greater than it otherwise would have been. But it is also true that we went through a whole period in the 1970s when the restraints didn't seem to be too binding. We also experienced a period in the 1980s when the restraints appeared to have been more binding. My point is that you can't really observe great differences in investment during these two periods. Moreover, as you know, employment has declined during this whole period so the restraints did not stop that.

Mr. **Pease**. Well, I mean you pointed out, or Mr. Kelly has that the reduction in employment is due as much to new technology as it is to lack of investment.

Mr. **Gramlich**. Yes. It could have been.

Mr. **Pease**. Well, let me just ask you, do you think that if there had not been a multifiber agreement over the past decade, that we would have seen the investment in the textile industry that we have seen?

Mr. **Gramlich**. That's hard to say, Congressman. On something like that, I would prefer to give you a written answer. Today I have been summarizing the results of our study and saying that there has not been any noticeable change. But you are asking a harder question—that is, would there have been any impact? I don't want to take a hard line on that position without a little further study. It's quite possible that we simply can't answer that question given all of the difficulties in interpreting data and so forth.

Mr. **Pease**. Well, I appreciate it if you would give it some thought and let me know what your thinking yields.

But it seems to me that your study is focused on how much investment has there been. I think another question is what would the investment have been if there had been no protection at all?

[The following was subsequently received:]

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

July 29, 1987

Honorable Donald J. Pease
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman:

In our report, Has Trade Protection Revitalized Domestic Industries?, the Congressional Budget Office concluded that the Multifiber Arrangement (MFA) had not materially increased investment in the textile and apparel industries above the levels that had prevailed before it had been negotiated. On June 2, during our testimony before the Subcommittee on Trade, you asked CBO to consider whether the MFA had increased investment in the textile and apparel industries above what it would have been if the industries had not been protected.

An issue such as this requires speculation about "what would have happened if..." and is, therefore, conjectural. Nevertheless, based on information contained in the report as well as some statistical estimates, CBO finds little support for the proposition that the MFA increased investment in these industries.

Trade protection can raise industry investment in two ways. First, a lack of funds may be preventing domestic firms from acquiring the plant and equipment that will reduce their costs to those of their foreign competitors. Because protection increases industry profits, it may allow domestic producers to make these investments. Second, since trade protection increases industry profit margins, it gives domestic producers an incentive to expand output. Thus, trade protection can encourage firms to add productive capacity, so that they can increase output of existing products or introduce new products.

On the first channel, evidence cited in the CBO study suggests that, at least in the textile industry, a lack of funds did not limit investments. On the second, the MFA permitted imports to grow by at least 6 percent per year--far in excess of the rate at which domestic consumption could be expected to increase. Consequently, it is doubtful that the MFA gave domestic manufacturers much incentive to expand, and in fact, domestic output has remained relatively constant over the past 10 years.

Honorable Donald J. Pease
Page Two

In any case, the MFA probably did not substantially raise industry profits or profit margins. For the most part, it does not appear to have provided the domestic textile and apparel producers with much aggregate protection. Under the MFA, the United States negotiates quotas for individual products with specific countries. Thus, when the MFA does limit the imports of particular products from particular countries, affected firms can often shift production to other products. At the same time, producers in other countries can expand production of the constrained product.

While the MFA seems to have had only a small effect on investment in the textile and apparel industries, factors other than foreign competition affect firm investment decisions. These include the rate of capacity utilization, the age of plant and equipment, as well as the cost of capital. Expectations about future demand, prices, and costs also play an important role. Thus, CBO attempted to estimate statistically the impact of trade protection on investment taking into account some of these other factors.

There are a number of problems in making such a statistical estimate. First, as we discussed in both our testimony and our June 26 letter to Chairman Gibbons, it is difficult to get an accurate measure of either the level of imports or domestic output. In estimating the effect of protection on investment, however, CBO used the value of both shipments and imports reported by the Department of Commerce. In addition, since the MFA does not establish aggregate quotas, measuring the extent of trade protection in the textile and apparel industries at any given time is virtually impossible. Nevertheless, in the statistical analysis, CBO assumed that the level of protection during any given period determined the level of imports.

The results of the model suggest that imports, and hence the MFA, did not substantially affect the level of investment in the two industries. These results are consistent with the previous analysis and support the conclusion that trade protection did not materially affect the level of investment in either the textile or apparel industry.

I hope this has been helpful. If you would like any additional information, please let me know.

With best wishes,

Sincerely,

Edward M. Gramlich
Acting Director

Mr. GRAMLICH. Yes.

Mr. PEASE. And it seems to me that a lot of companies which are reasonably productive and efficient and have good management would say to themselves if the prospect is that we will have some modicum of protection from unbridled imports, then we will take a chance, we'll invest, we'll put in the new machinery, we think we can make it. But if those same companies felt that there was no protection whatsoever, they might say, well, why should I bother, I'll just go into some other line of work altogether. And the difference between those two is significant in terms of U.S. production, and especially significant in terms of jobs retained in dozens, even hundreds of communities across the southern part of the United States.

Mr. GRAMLICH. Yes. There's one other point, Congressman, and I know you know this. But it makes a lot of difference whether protection is perceived as temporary or permanent. If the protection is perceived as temporary, as just going to be for awhile to give the industry an opportunity to become competitive, that is probably much more effective in stimulating investment than if there is an indefinite protection period, and firms have less stimulus for new measures for competitiveness. So we would have to explore that too.

Mr. PEASE. Okay. Well, thanks very much.

Thanks, Mr. Chairman.

Chairman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. I want to thank the witnesses for their appearance. And I would like to ask who initiated the request for you to prepare this kind of information?

We normally think of CBO as furnishing expert advice on items other than this, usually related to numbers, and we normally think of OTA as furnishing esoteric technical advice to us. Well, it is always great to have a couple of new players in the game.

But we would be interested to know which coach sent you into the fray?

Mr. GRAMLICH. I will speak for myself.

We were asked to do this study by this subcommittee. And while it is true that 90 percent of our work is entirely devoted to budget issues and numbers and cost estimates, and the like, that we have done a number of papers that are related to budget issues, in which the budget is not the whole story.

As you know, this trade issue is one that has a very large budget hook on the fringe, as one might say. Certainly one of the things that has caused the declining competitiveness is the large budget deficits we've run recently and their impact on the dollar.

As a result, we have done a few papers on trade problems, how they relate to the budget. And this is perhaps outside of that margin a little bit, but it's not entirely a new departure for us.

Mr. FRENZEL. We have asked you to do this before, as I recall.

Mr. GRAMLICH. Yes, that's right.

Mr. FRENZEL. OTA.

Mr. KELLY. This particular study is part of a larger program study called Technology in the American Economic Transition, which we were asked to do by six committees of the House and two of the Senate.

It was designed to look at structural change in the U.S. economy growing out of new technology and trade primarily. It addresses questions like are we industrializing, are we becoming a service economy; what does it mean to become a service economy, where do we look for employment and growth; and, of course, what are the broad policy implications of these kinds of transformation?

It quickly became apparent to us that you had difficulty understanding some of the changes only looking at standard statistics. It was necessary to look at in some detail at a number of different sectors. We chose this one in particular for a variety of reasons.

First, it is a big chunk of the economy. People spend a lot of money on textiles and apparel, a reasonable chunk of total consumer expenditures And second, the industry was purportedly a sunset industry. It seemed to be an industry where the main issues were: How do you get out of it gracefully? How do you train people to go into some other line of work?

As I said in the prepared testimony, we were rather surprised at what we found. Our work confirmed a number of things that we have been looking at quite broadly in the economy, and that the mixture of production and services is becoming very blurred. The new networks that are merging to move fiber out of Du Pont and onto a retail shelf involve a very complex amalgam of service-type operations and production-type operations. In order to understand those changes, you have to look at the performance of these systems taken as a whole. This was a very interesting case study for us.

Mr. FRENZEL. Okay. So you were asked by some committees to perform this broad review, and this report, which just happened to be published recently on the textile industry, is a part of that review?

Mr. KELLY. Yes, sir. We published one on agricultural trade. We published one on housing and international competition in housing, and we hope we will be publishing some on variety of other sectors of the economy in addition to our integrated report.

Mr. FRENZEL. I think this is the first time you have been before this subcommittee.

Mr. KELLY. Yes, sir.

Mr. FRENZEL. Tell me a little bit about how you conducted your research.

You had a contractor. I presume that contractor is someone from outside OTA?

Mr. KELLY. Yes, sir. OTA undertakes more than half of its work by external contracts, since we can't maintain technical expertise in all the areas we are asked to address.

Mr. FRENZEL. Can you tell us something about the principal contractor without being too detailed or involving all of her associates?

Mr. KELLY. Okay. Well, there are very few places in the United States that do research in textile and apparel technology, in fact virtually no place that does research in apparel technology.

We spent some time investigating groups that had an expertise, and the School of Textiles at North Carolina State University proved to have the best proposal for us. They had an excellent reputation. They are the center of a fair amount of relevant Defense Department contract work, and the (TC)² operation I just mentioned is now partly based at North Carolina State University. So we thought there were compelling reasons to turn to them for a detailed review of the technology, which was our central interest here.

Mr. Frenzel. Is Ms. Ruttenberg on the staff of North Carolina State?

Mr. Kelly. No, sir. She was brought in. We had something like 900 pages of material provided to us by North Carolina State and their colleagues at the University of North Carolina at Greensboro. The material needed to be converted into a form that would be useful to Congress. So we rewrote it, had it reviewed by other technical people, and produced this report.

Mr. Frenzel. I notice your reviewers come from North Carolina State, Ladies Garment Workers, Du Pont Co., Amalgamated Clothing & Textile Workers, University of North Carolina, ATMI. She got fairly well reviewed by the industry, didn't she, after starting with the industry's figures?

You don't think that may have biased you in one direction or another?

Mr. Kelly. Well, since the center of this piece was review of the technology and the way it was going to be used to build a healthy industry, I think it aimed us at the people who had the greatest technical proficiency. And since we don't recommend any policy options or don't analyze them, I don't think it distorted our views.

Mr. Frenzel. My friend from Ohio suggested that I could have been a consultant to CBO. I would rather have been a consultant to your crowd. It looks like you needed a little balance.

Somehow you have suggested that one of the things needed is import restraints.

Are you aware of any industry in the United States that is beneficiary of more import restraints than the textile industry?

Mr. Kelly. I'm not qualified to answer. The answer is no, I'm not aware. But it doesn't mean that it's not true.

Mr. Frenzel. Here's an industry that has 18 percent average tariff control. It has the benefit of MFA and very restrictive bilaterals with the principal suppliers. We are calling quotas every day. Just last week, we rewarded one of our CBI allies, Costa Rica, for using American materials by calling a quota on it. That leads you to believe that since the industry is in transition, as you suggest, that we need to do more for it.

Mr. Kelly. Well, I think the blunt fact is that the imports are continuing to erode their share of domestic markets. Obviously there's a statistical argument over the extent of this, but there's no argument over the fact that imports are——

Chairman Gibbons. Would the gentleman from Minnesota yield at this point?

Mr. Frenzel. Sure.

Chairman Gibbons. Because that goes to the very guts of this whole report. I'm glad it's just a technical report on technology because let me read to you, on page——

Mr. Frenzel. I thought it was sociology, Mr. Chairman.

Chairman Gibbons. Let me read to you a statement on the top of page 3, chapter 1, called "Overview." And you have just described all the protection we've given the textile industry. It says here:

"The United States is one of the few nations that has left its market largely open to foreign sales of textiles and apparel."

And you have just repeated that the industry has the highest tariffs—four of five times the national average. They have more quotas than anybody else. They have written themselves out of all the preferential tariff agreements we've got, like CBI.

I would call our textile market one of the most protected in the world, but yet this OTA report says that we are one of the few nations that's left its textile and apparel markets—the topic sense of the paragraph is this: "the United States is one of the few nations that has left its markets largely open to foreign sales of textiles and apparel."

Well, if you believe that, this report isn't worth a used copy of yesterday's worst scandal sheet.

Mr. **Frenzel**. I thank the chairman for his contribution, and remind him that since it all originated from Greensboro, that probably your contractor should have been a little more careful in the write up.

Mr. **Kelly**. Could I respond to that?

Mr. **Frenzel**. Please.

Mr. **Kelly**. There are two ways of looking at the comparison. That phrase was intended to compare U.S. textile and apparel protection with those in other countries. And on this point we cite OECD study, I believe. We have a reference to it which——

Chairman **Gibbons**. There's no footnote on this. I don't know where you got that one.

Mr. **Kelly**. No. But later on in the report it has the document on which we based that statement.

And it certainly is true, that compared to at least many other countries, our level of protection is less aggressive.

But another point that I certainly want to emphasize here is that when we talk about policy, we are not talking exclusively or even in particular about increased trade protection.

In this report, as in my testimony, we talk about a variety of different things that can be done to help this industry.

Mr. **Frenzel**. What bothers me is that here is an industry with the greatest history and experience of protectionism in the United States. You have found it weaker than my broker finds it, who urges me to buy into these industries vigorously now. Yet how did it get in these straits with all the protection that we've given it?

Apparently your researchers didn't draw any of those comparisons?

Mr. **Kelly**. No, we didn't, there is absolutely no analysis of the relationship between investment and protection.

Mr. **Frenzel**. What strikes me about your report is if a protected industry becomes weaker while you protect it, then it's probably not a good idea to protect it more. Perhaps we are on the wrong track, but you did not even reach that conclusion.

Mr. **Kelly**. No. We neither confirmed nor denied that statement. We certainly talk about the overall problem of trying to turn this industry into a productive competitive one.

Mr. **Frenzel**. The other thing that concerns this committee is that in your acceptance of all the ATMI mathematics, you have accepted their double counting procedure. At least it is described as double counting by your friends at the witness table and by some other Government agencies with respect to yard good imports.

Mr. **Kelly**. On that point, I don't think we disagree. Because the statistics that we have used from ATMI on the square yards, we checked quite carefully.

They in fact include the cloth and materials used to produce apparel in that count of apparel square yardage. They do not count it in something called U.S. industrial home furnishings and market. And when you add the two together, you get the total import number.

And obviously we didn't do the calculation, but we pressed them quite closely on this point, and we checked this point with the Department of Commerce, and the Department of Commerce suggested that ATMI hadn't double counted.

I don't know if the CBO wants to take issue with that point but—it's not to say somebody has taken this data and done a misleading calculation with it. I can't testify to that.

Mr. **Frenzel**. We've had a lot of trouble cornering this problem, and we would have thought that a technologically oriented group like yours might have been able to zero in on it a little more closely.

Both CRS and CBO indicate that they have difficulty with the methodology and believe there is some double counting, which is very hard for anybody to interpret correctly. It is not that the ATMI is trying to mislead us or that any other group is. It is just we would like to get as closely focused on the facts as possible. Certainly if I were somebody who wanted more protectionism, I would take the figures which seem to prove my case the best.

Mr. **Kelly**. Well, there are three sets of statistics, perhaps four, that are thrown around. There are ratios calculated in terms of current and constant dollars. There are import ratios calculated using pounds, and there are import ratios calculated using square yards. And needless to say, they use different methodologies and give different results.

It's difficult to know which gives the most honest impression of what's going on. Different ones are useful in different circumstances.

What one looks for, of course, is internal self-consistency within the set of data that you are using. And on this, short of reproducing this quite elaborate industry task force that they put together to calculate the square yardage, we simply asked the Department of Commerce which I believe was on the industry's advisory group, I'm not sure of that, but they were as convinced as we were that at least in terms of square yardage statistics, if you used them properly, they weren't double counted.

Mr. **Frenzel**. There are other parts of the report that make me a little nervous. One relates to an increase in shipments from Japan. Its footnote is it came from ATMI, footnote No. 17 on page 109. The figures don't look like other figures that we have received on that.

Another aspect of the report that trouble me is where you are talking about other markets. You consistently use quotes from the 1970s.

Didn't that bother you, that you were looking at policy statements by heads of state and Trade Ministers from another decade?

It's little bit like the Central American problem. We get plagued by death squad reports dating in the seventies. I think we would like to be as up to date as possible in determining what is happening in other markets.

I think maybe some of these general questions, or even the more specific, you can perhaps answer later at your leisure and provide some extra material for the committee. I am grateful to both of you for being in the game, and the committee will be assisted by your work.

Mr. Chairman, I'm going to yield the balance of my time at this point.

Chairman **Gibbons**. All right. Mr. Crane.

Mr. **Crane**. Thank you, Mr. Chairman.

I too want to thank the witnesses for their testimony.

Mr. Kelly, in your report, you have overwhelmingly relied on information gleaned from the American Textile Manufacturers Institute rather than departments of Government, such as Commerce, Agriculture, and the International Trade Commission.

I was wondering if there is any explanation behind that; whether you have looked at information from those Government sources; and whether there are any fundamental contradictions between them and the information that you have utilized from the American Textile Manufacturers Institute?

Mr. **Kelly**. I have to take exception to your characterization of the way we have used data. In fact, we have used the ATMI data largely because they have the only series available on square yardage. They have just completed a very elaborate study trying to get consistent square yardage data which involved an advisory group which had people from the Department of Commerce on it. And at least our conversation with those people found that they are in general accord with the way that ATMI kept those square yardage data.

Virtually every other piece of data in our report is taken from the Department of Commerce statistics. In fact, on the same page where we present the square yardage data, we present the Department of Commerce dollar figures for imports.

To my knowledge, the Department of Commerce doesn't publish comprehensive square yardage data. But, for everything else, you can flip through the first chapter or so and look at where we have gotten our data for employment, for wages, for productivity, for Consumer Price Indexes, for the input-output analysis of job share. Every single one came from the Department of Commerce data.

Mr. **Crane**. Are you saying that Commerce doesn't publish a square yard equivalent or data on square yards?

Mr. **Kelly**. Not to my knowledge. This was the first time that I—at least the people that we have talked to said this is the first time that anyone has ever developed a self-consistent square yardage data. And in fact it does give a very different view of the situation. And we thought the comparison between the dollar and the square yardage statistic was a useful and valid one.

Obviously you have to be aware of both when you are trying to understand what is going on in the market.

Mr. **Crane**. Well, bilateral arrangements or agreements are negotiated on that basis, and so that information obviously has been available for years.

Mr. **Kelly**. It's been available in terms of individual fibers, but the difficulty was trying to get it added up to an industrywide total so you didn't get double counting. And in fact, a lot of the effort here was trying to get the entire textile and apparel industry to use a uniform reporting technique.

The details of this I can't discuss in detail. I know that the square yardage work has been under review for a period of over a year trying to get the quirks of this worked out. I think they had square yardage figures for a variety of different products but never added them up before.

Mr. **Crane**. On page 7 of the report, you contend that 282,000 jobs were lost in the textile and apparel industry between 1980 and 1985. Yet, you concede three paragraphs later that "Job losses resulting from imports cannot be easily disentangled from those resulting from rising domestic productivity."

In its 1986 report, CBO states that domestic competition and the shift of domestic resources among regions of the country have been as significant as foreign competition in causing dislocations in the industry.

Do you reach that same conclusion?

Mr. **Kelly**. Yes. Of course it depends on what time period you are talking about. We have a graph here in our report on page 7, which tries to disentangle productivity from trade efforts. Of course, you are always shooting at a "moving target" but what we did was take 1984 demand and productivity, and imagine that you had shifted to a 1972 trade pattern, for that you can see you pick up employment by something like 8 percent.

We then imagined that you froze demand and trade at 1984 levels, and made it all 1972 productivity. In this case you pick up employment by something like 20 percent. If you take both 1972 productivity and 1972 trade patterns, you pick up employment by a third.

Now this is a period in 1972 to 1984, chosen because we had self-consistent data. If you take the year 1986, and look at the apparel industry, I am sure it would show that the trade effect dominated the productivity effect during that single year.

Mr. **Crane**. The reason I raise this question is, if you take manufacturing as a percentage of our GNP, since 1975 it has remained constant, about 20 percent. Yet during that same timeframe the percentage of the work force in manufacturing industries has declined from 25 to 18 percent, which suggests that we are in fact getting more productive in manufacturing.

Being more productive means increased utilization of state-of-the-art machinery which renders individual workers more productive. That is a good thing. It is a positive commentary on what we are doing to increase productivity.

I wonder how you reconcile this trade competition with the creation of 20,000 new jobs in the textile industry?

Mr. **Kelly**. Well, total jobs in the industry of course depends on a balance between growth in final demand domestically, growth in imports and exports, and growth in productivity. You have to look at all three factors in order to calculate total employment.

In fact productivity growth in this industry has been, least in the textile industry, has been very vigorous. From the period 1975 to 1985, for example, productivity in textiles grew at twice the rate of manufacturing. It grew at 5.6 percent a year.

Now, you know, if demand had held constant and everything else had been equal, you would have lost 5.6 percent of all employment in the textile industry each year. Productivity growth is welcomed by this industry, and needed, and we make a strong case that the kind of high-risk investments needed to insure continued growth is a crucial element in saving this industry. The apparel industry has had a somewhat different record, though its productivity growth has roughly matched that of all U.S. manufacturing during the last 10 years, a rather respectable rate of growth.

And our technical investigations, which we go into at some length here, indicate that they may be on the brink of rather radical increases in productivity.

Interestingly enough, the need to increase productivity is shared both by labor unions and by the producers, and they have cooperative efforts here to develop technology that will insure that that productivity growth continues.

Now, the key of course is to make sure that there is adequate research and adequate investment to back up the potential.

Mr. CRANE. There have been some really encouraging profits within the textile industry most recently. In fact, as my colleague from Minnesota indicated his broker advises to invest in those stocks. I saw in the paper yesterday, that the leader in terms of stock market gains for the month of May was textile stock. It went up 14.7 percent, ahead of any other investment you could make.

How do you reconcile that with your general conclusion that earnings and profits are sagging in the industry, coupled with this declining employment?

Mr. KELLY. I do not think we did conclude that earnings and profits were declining. In fact we point out that the textile industry, in a way, has been quite profitable. The symptom of problems is their share of the domestic market.

In fact they have been profitable on a shrinking share of the domestic market. Now one can say this is both good news and a sign of difficulty. Clearly, if they are moving into ever-shrinking market niches, they can be profitable within those niches while other parts of the market are increasingly captured by firms from other countries.

Mr. CRANE. So you realistically anticipate zero employment in this industry by the year 2000 in the absence of some kind of legislative action?

Mr. KELLY. No. We make no such forecast at all. Obviously, if the rate of growth of imports is continued at the rate of the last year or so, they are in serious difficulty. Their domestic market share goes to zero just by putting a ruler on the graph. But of course this will not happen.

In fact they always will do well probably on the low labor, high-capital end of the market, and on the high-fashion end, but the battle is for this very large 60 to 70 percent of the market in between those two.

Mr. **Crane**. We have agreements now with some of our trading partners to limit drastically their exports to our market. We also have had a very dramatic erosion in the value of the dollar vis-a-vis the yen, deutschemark, and some other world currencies.

That is not an improved condition for the industry in your estimation?

Mr. **Kelly**. Oh, it obviously will have an effect, and it has shown some effect. One of the difficulties in the apparel industry is that the bulk of the growth of imports has come from countries whose currencies have not shifted in significant ways with respect to the dollar, either because they are formally linked to the dollar, or because they are allowed to float in ways that do not track the yen or the deutschemark.

Mr. **Crane**. Are you thinking of a country like Taiwan?

Mr. **Kelly**. I frankly do not know the list. I guess the ones you were talking about—Dominican Republic, Haiti and——

Mr. **Crane**. Caribbean nations.

Mr. **Kelly**. Caribbean nations. And there are a number in Asia. I would be happy to provide that for the record. But the U.S. dollar has changed with respect to—actually, the semiconductor industry has suffered some of the same difficulties because a lot of the countries where cheap semiconductor assembly has taken place, have not had their currencies changed with respect to the dollar as much as the exchange-weighted 22 nation average.

Mr. **Crane**. Dr. Gramlich, I have just one question for you. We have received testimony that clothing prices have increased 4.6 percent in the first quarter of 1984, which is perhaps the largest increase since the Department of Labor started keeping price records back in 1977.

How much of this increase, in your estimation, can be attributed to the new multifiber agreement, and can we expect clothing prices to increase substantially if H.R. 1154 were to be enacted into law?

Mr. **Gramlich**. On the first question, I want to consult with our statisticians to see what we can provide in the way of a precise answer. I cannot do that sitting here. I answer a yes to the second question. I think that H.R. 1154 probably would increase clothing prices. But I will provide for the record a more precise statement on your first question.

Mr. **Crane**. Fine.

[The information follows:]

As with other goods and services, numerous factors influence apparel prices. In addition to changes in the level of protection, changes in the prices of input, foreign exchange rates, and consumer demand would also have an important effect. Given the relatively short period of time since the MFA was renewed, there is insufficient data to make an accurate estimate of the impact of the new agreement.

Nevertheless, the available data suggest that the revised MFA was not responsible for the increase in apparel prices. The data cited are consumer prices. If the MFA were responsible, one would expect to observe similar price increases for imports and domestic production of apparel. Yet since the renewal of the MFA, prices of domestic produced apparel, as represented by the producer price, have increased at an annual rate of roughly 1 percent, while the prices of imported apparel have actually declined. Of course, these prices might have been lower if the MFA had not been extended. It seems likely, that the revision is not responsible for the observed price increases in prices.

Mr. CRANE. I want to thank you both again.

Mr. FRENZEL. Would the gentleman yield, as he is concluding?

Mr. CRANE. Yes. I would be happy to.

Mr. FRENZEL. I thank the gentleman for yielding. I had meant to ask OTA about your statement on page 88 with respect to exchange rate fluctuations.

First of all, you refer to an AFL-CIO 30th anniversary report which deals with the rise in value of the dollar between 1983 and 1984. That is a good source, of course, but probably not the usual source from which we get those kind of statistics.

Then, afterwards, you say, "Weighing the currency average of the 20 nations with whom we trade most heavily in textiles, suggests that the value of the textile dollar in the second quarter of 1986 was almost another 30 percent above 1984."

That figure, or that statement is not footnoted, and I would like to have whatever back-up information you have on that for the committee.

Our stats, which cover different time periods, indicate that since the Plaza agreement, the won is down by 7½ percent, the new Taiwan dollar by 20 percent, the Japanese yen by 42 percent, the Hong Kong dollar by no percent. Those countries provide almost half of our textile imports, and I would like to have your confirmation of those changes. Also you say that in a period that at least overlapped that a bit, you had a 30-percent increase in the so-called textile dollar. Could you explain that 30-percent increase and define textile dollar for me.

I assume that is a trade-weighted average, but I am nervous that it may be a country-weighted average. However, I suppose only your statisticians can tell us without benefit of footnoting and so on.

Mr. KELLY. Yes. I apologize for the lack of a footnote on that point. It should have been.

Mr. FRENZEL. Well, exchange rates are very important in the trade mix, and you probably could have a little more work on them in your report. I would appreciate it if you will provide that, and I thank the gentleman for yielding.

Chairman GIBBONS. Well, before we close on this subject, and while this panel is here, because you all are experts with figures—and I want to tell you, if you sit on this side of the table, you really get addled about some of the figures that are thrown at you.

Let me read from an unsigned document, undated, but purportedly authored by the Department of Commerce. It explains the difference between the ATMI import penetration ratios in textiles and apparel: In 1986 ATMI says that the import penetration of textiles and apparel was 52 percent. Now the Department of Commerce, for the same measuring time, says the import penetration of textiles and apparel is 33 percent, not quite double ATMI's, not quite doubling.

The paragraph goes on and says: "Imports of yarn and fabric are definitely counted twice in the ATMI calculation, once as inputs in the domestic production data, and second, or once again as additions to imports."

Now, that is why I say anybody that is using a figure that is higher than 33 percent is double counting. Now, I wish you would both go back to your think tanks and find out who is right.

I am sick and tired of fooling with figures that are that far apart, 55 percent versus 33 percent, and we have got things we are physically counting. We are counting dollars, or pounds, or yards, and yet, we come up with figures that are that different. And both people will sit here with straight faces and say that is the import penetration. Now, what are we to believe?

Can somebody straighten this mess out for us? Thank you.

[The following information was subsequently received:]

CHAIRMAN

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

July 10, 1987

Honorable Sam Gibbons, Chairman
Subcommittee on Trade
Committee on Ways and Means
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This is in reply to your letter of June 11, 1987, in which you request the Commission's advice as to the appropriate method for determining import market share and the appropriate data for domestic production, imports, exports, and consumption with regard to the textile and apparel industries. You ask that we examine in particular the statistics presented by the American Textile Manufacturers Institute (ATMI) in the course of the recent Committee hearings on H.R. 1154, the Textile and Apparel Trade Act of 1987.

I enclose a memorandum prepared by the Commission staff which I hope will answer your questions. If we can be of further assistance in this matter, please do not hesitate to call on us. For further information on this memorandum, please feel free to contact Mr. Erland Heginbotham, Office of Industries, at 523-0146.

Sincerely,

Susan Liebeler

Susan Liebeler
Chairman

SL:ma

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

July 10, 1987

MEMORANDUM

TO: The Chairman

FROM: Director, Office of Industries

SUBJECT: Letter from Congressman Gibbons requesting Commission advice concerning appropriate method for determining import market share and data with regard to the textile and apparel industries.

Congressman Gibbons recently wrote to the Commission requesting our advice as to the appropriate method for determining import market share and the appropriate data for domestic production, imports, exports, and consumption with regard to the textile and apparel industries. He asked that we examine in particular the statistics presented by the American Textile Manufacturers Institute (ATMI) in the course of the recent Committee hearings on H.R. 1154, the Textile and Apparel Trade Act of 1987.

We have divided our response into four parts--(1) a summary of our findings, (2) a description of the units most commonly used to measure import penetration for textiles and apparel (3) concepts of "market" and "industry" used in Commission investigations under the trade laws, and (4) a discussion of the ATMI approach and suggested alternative approaches for calculating import penetration ratios relevant to the textile industry.

SUMMARY

- ATMI calculates three import penetration ratios for what it describes as (1) the U.S. textile market, (2) the U.S. apparel and apparel fabric market, and (3) the U.S. industrial and home furnishings market. All three of the ATMI ratios include indirect imports of textile fabric that enter in the form of finished goods. This method of measuring import penetration ratios can lead to higher ratios than those that use only direct imports for an industry.
- The first of the ATMI penetration ratios appears to correspond to a well defined industry. The second of these ratios, that for the "U.S. apparel and apparel fabric market", does not correspond to a well defined industry. It is derived by adding the estimated fabric

equivalent of imports of apparel and estimated imports of fabric of the type used in the manufacture of apparel and dividing that amount by the estimated fabric equivalent of domestic consumption of apparel.

The title of this ratio may be misleading because there is no distinct, definable "apparel and apparel fabric market." The market for apparel is separate and distinct from the market for fabric. Moreover, there is no apparel fabric "industry." First, the type of fabric used to make apparel has other uses. Second, much of the equipment used to make this fabric can also be used to make other types of fabric. The ATMI ratio actually reflects the importance of fabric imports to a particular type of fabric buyer, namely, apparel producers.

- The ATMI ratio for the "apparel and apparel fabric market" may be useful to ATMI's membership, which includes producers of apparel fabric. Domestic producers of fabric (of all kinds) can be adversely affected by imports of finished goods containing fabric (of all kinds); it is this impact that the ATMI apparently seeks to address in its second ratio. In doing so, ATMI has created an artificial definition of industry.

- This ratio may overstate imports of "apparel and apparel fabric" in three ways--(1) it has not been adjusted to reflect the fact that some imported apparel is manufactured from U.S. exported fabric; (2) it does not reflect the fact that domestic articles on average are of a higher quality than the imported articles; and (3) it may include imported apparel fabric that is ultimately used for other purposes, such as home furnishings.

- Import penetration ratios can be measured in terms of either quantity or value. The Commission has generally used quantity ratios to measure import penetration in its import injury investigations. The Commission has found that both quantity and value ratios can be helpful in understanding the significance of imports to domestic industries as long as the limitations of each are kept in mind.

- Whether using value measures or quantity measures, the Commission believes that it is more appropriate to measure import penetration by comparing imports of finished products with domestic consumption of finished products and imports of raw materials with consumption of raw materials.

- The Commission has updated a table developed in response to an earlier request and calculated a 1986 import penetration ratio, using value measures, of 30.1 percent for apparel, and 8.5 percent for textile mill products. Using square-yard equivalents, the Department of Commerce calculated a 1986 import penetration ratio of 35.1 percent for apparel, 23.8 percent for all textile finished products, and 13.1 percent for non-apparel textile finished products. None of these ratios combines fabrics with finished downstream products. (The ratios calculated by the Commission and the Commerce Department are based on different definitions of apparel and textile products. Therefore, they are not strictly comparable.)

- The trade laws provide only limited help in determining the appropriate market or industry for measuring import penetration in the context of an industrial sector. The industry concepts in these laws, and the international agreements to which they are related, are oriented toward a specific product-by-product analysis rather than the multiple product situation that must be addressed in the context of industrial sectors. The Commission approach to aggregating finished goods with goods at earlier stages of production, i.e., from raw materials through intermediate goods, has been to aggregate with the finished goods only those earlier goods which are sufficiently close to the final product to be considered a like or directly competitive product.

DISCUSSION

Generally accepted methods for determining import penetration

Import penetration ratios can be measured in terms of either quantity or value. Quantity ratios are based on customary units used in particular industries and on the entry documents filed by importers with the U.S. Customs Service. Value ratios are generally based on the net sales of domestic producers and the CIF value of imports reported on Customs entry documents. In general, quantity and value ratios for a particular product will be different unless the prices for the domestically priced articles and the imported articles are the same.

The Commission has generally used quantity ratios to measure import penetration in its import injury investigations. It has found this appropriate for several reasons. First, the statutes which it administers generally call for comparisons between narrowly defined products which are like one another. Second, the effect of imports on the range of production, employment and financial indicators which the Commission considers in its investigations can usually be gauged more accurately on a unit of production basis. The detailed investigations that the Commission conducts usually allow the Commission to obtain more accurate quantity data than would be available from public sources. The Commission has, on occasion, used value based comparisons, when quantity based calculations were not appropriate.

The Commission has found that both quantity and value ratios can be helpful in understanding the significance of imports to domestic industries as long as the limitations of each are kept in mind. If the imports are of a lower (or higher) price than the domestic product, for any reason, including, for example, unfair competition, differences at the point in the chain of production or distribution at which the value of the imports and domestic products are calculated, or differences in quality, a value based ratio will be lower (or higher) than a quantity based ratio.

U.S. Department of Commerce also calculates both value and quantity import penetration ratios, including quantity ratios in the form of square yard equivalents. The limitations on imports of textiles set forth in the bilateral textile agreements are expressed in the form of square yard equivalents.

The Department of Agriculture (USDA) and the ManMade Fiber Producers Association, both of which have primary interest in textile fibers, often use pounds as the quantity measure of both consumption and trade. Finished articles may be converted to pounds of raw fiber equivalents in these calculations.

Applicability of trade law concepts of market and industry

The Commission generally does not examine the impact of imports on a major sector or market of the national economy such as the fiber/textile/apparel industry. The trade laws require the Commission to narrow its focus to consider the domestically produced article which is like the imported product. Once the Commission has determined the appropriate product delineations, it bases its more narrow industry definitions on the respective products. Thus, a major sector or market may consist, for purpose of traditional Commission analysis, of a multitude of products and consequent industries.

Title VII (antidumping and countervailing duty) and section 201 (escape clause) determinations, which are based on international agreements, are product oriented and generally require the Commission to focus on domestic producers of a given product rather than all the firms producing articles in a sector of the national economy. Section 337 of the Tariff Act of 1930 has an industry orientation that is generally narrower than that in either title VII or section 201. The industry in Section 337 investigations is generally composed of the facilities dedicated to production of a product pursuant to a patent or covered by a copyright or trademark.

The Commission has addressed the question of the appropriate industry definition under the trade statutes in several instances in which the firms seeking relief collectively constituted a major sector of the national economy. Investigations involving imports of automobiles and carbon steel conducted under section 201 of the Trade Act of 1974 illustrate the Commission's approach to the issue of industry definitions in the context of industrial sectors. The automobile investigation (investigation No. TA-201-44) involved a complex vertically integrated industry. The Commission's investigation was nevertheless defined in terms of specific like products such as passenger autos, light trucks and heavy trucks. The carbon steel investigation (investigation No. TA-201-51) covered a wide variety of basic steel products, some of which are vertically related and some of which are not (i.e., semi-finished steel (e.g., blooms, billets, and slabs), certain basic steel mill products like sheet and strip, plate, rod, and bar, and certain more advanced steel mill products like wire and wire products, pipe and tube, structural shapes, and certain railroad equipment). In analyzing the "steel sector", the Commission found there to be nine separate industries.

In measuring import penetration in these two cases, the Commission focused on data comparing imports with domestic consumption of like articles. It had data showing both the quantity and value of imports and domestic consumption. In the automobile case, the Commission compared the number of autos imported to the number of autos consumed domestically. Similarly, in the carbon steel case, the Commission also focused on quantitative data (expressed in terms of tons), and compared imports to consumption for each of the nine industries (e.g., compared imports of carbon steel plate to domestic consumption of carbon steel plate). In that case, under the relevant statute, the Commission found it appropriate to asses the individual impact of specific like products in separate definable industries. Because certain basic unfinished forms of steel, such as blooms, billets and slabs, were defined as a separate product group, such articles were not aggregated with the more advanced steel products. Neither was the steel content of the more advanced steel product aggregated with basic unfinished steel in considering the "blooms, billets and slabs industry." However, certain of the more advanced steel product groups, such as wire products, did include certain articles which were intermediate forms of other articles in the group.

This same practice is used in cases under Title VII of the Tariff Act of 1930. In cases involving finished goods, the Commission will look to determine if there are also imports of intermediate forms of that good which are sufficiently similar in characteristics and uses to the finished good to be considered the same like product. If an intermediate form of a product is found to be a distinct product but is not like a further processed product, it will not be aggregated with such further processed products.

ATMI approach and alternative approaches for calculating import penetration

ATMI calculates three import penetration ratios for what it describes as (1) the U.S. textile market, (2) the U.S. apparel and apparel fabric market, and (3) the U.S. industrial and homefurnishings market. Preliminary estimates developed by ATMI for 1986, which are presented in table 1 (attached), show import penetration in the textile market at 35.6 percent, in the "apparel and apparel fabric" market at 52.4 percent, and in the "industrial and homefurnishings" market at 16.6 percent.

All three of the ATMI ratios include indirect imports of textile fabric that enter in the form of finished goods. This can lead to higher ratios than those that use only direct imports for an industry. The first of these ratios, that for the U.S. textile market, appears to correspond to a well defined industry. The titles of the second and third ratios, however, may be misleading. The second ratio, that for the "U.S. apparel and apparel fabric market", does not measure import penetration of the apparel and apparel fabric markets combined, but instead aggregates imports of apparel fabric and the fabric equivalent in apparel imports and compares the total to the fabric equivalent of U.S. sales of apparel. There is no single "apparel and apparel fabric" market, but separate apparel and fabric markets. The firms serving the two markets are substantially different. The market for textile fabric, an intermediate product, is clearly different from that for apparel, a finished product. Domestic producers of fabric, however, can be adversely affected by imports of both fabric and finished goods containing fabric, and it is this impact that the ATMI ratio apparently seeks to illustrate. The difficulty with this is threefold. First, it has not been adjusted to reflect the fact that some imported apparel is manufactured from U.S. exported fabric; second, it does not reflect the fact that domestic articles on average are of a higher quality than the imported articles; and third, it may include imported apparel fabric that is ultimately used for other purposes, such as home furnishings.

The third ATMI import penetration ratio, that for the "U.S. Industrial and Home Furnishings Market," is defined in terms of the end use of a particular fabric and does not correspond to a well defined industry. Some of this fabric is of the same type as that used to make apparel, and much of it is made in the same facilities using much of the same equipment that is used to produce fabric for apparel.

Tables 2 and 3 give examples of import penetration ratios relevant to the textile industry calculated by the Commission and the Department of Commerce. Generally, the Commission collects textile production data on individual products rather than on an industrial sector. The Commission has calculated a 1986 import penetration ratio using value measures of 30.1 percent for the apparel industry (SIC 23) and 8.5 percent for the textile mill products industry (SIC 22) (see table 2.) Because the Commission has not undertaken an investigation concerning this issue, the data used to compile this table came from generally available sources. As noted in the table, some apparel, namely that made in knitting mills, is included in SIC 22 rather than SIC 23. Using square-yard equivalents, the Department of Commerce calculated a 1986 import penetration ratio of 33.1 percent for apparel, 23.8 percent for all textile finished products, and 13.1 percent for non-apparel textile finished products (see table 3.) The Commerce Department ratios include the textile content of finished goods only, and do not include fabrics that have not yet been incorporated into finished goods. Thus, for example, fabric that will be used to make apparel, but that has not yet been made into apparel, is not included in any of the Commerce Department's ratios. In contrast, much of SIC 22 (used for the Commission's ratio) consists of textile products before they are incorporated into finished goods. None of these ratios combine fabrics with finished downstream products.

The Commission generally would not seek to calculate an import penetration ratio for "apparel fabric" or for industrial and home furnishings fabric because these products do not correspond to well defined industries. Much of the fabric used in making apparel can be and is used for other purposes. Changes in consumer tastes and product prices tend to influence the end use of such fabrics. Also, many producers who make fabric for apparel use the same facilities and much of the same equipment to make other types of fabric.

SUMMARY

Table 1.--THE U.S. TEXTILE MARKET 1/

	U.S. Market	Imports (Million SYE)	U.S. Fabrics	Import Share of Market %
1973	29,613	5,124	24,489	17.3
1974	28,234	4,411	23,823	15.6
1975	27,036	3,829	23,207	14.2
1976	29,103	4,987	24,116	17.1
1977	30,364	4,976	25,374	16.4
1978	31,033	5,738	25,295	18.5
1979	30,431	4,639	25,792	15.2
1980	29,018	4,884	24,134	16.8
1981	28,866	5,776	23,090	20.0
1982	28,282	5,934	22,348	21.0
1983	30,537	7,706	22,831	25.2
1984	31,963	10,146	21,817	31.7
1985	32,652	10,831	21,821	33.2
1986 est.	35,700	12,698	23,002	35.6
	U.S. APPAREL AND APPAREL FABRIC MARKET 2/			
1973	15,557	4,313	11,244	27.7
1974	14,851	3,735	11,116	25.2
1975	14,363	3,351	11,012	23.3
1976	15,345	4,318	11,027	28.1
1977	16,044	4,270	11,774	26.6
1978	16,215	4,953	11,262	30.6
1979	15,627	3,988	11,639	25.5
1980	15,244	4,243	11,001	27.8
1981	15,405	4,976	10,429	32.3
1982	15,619	5,061	10,558	32.4
1983	16,341	6,193	10,148	37.9
1984	17,019	7,959	9,060	46.8
1985	17,334	8,322	9,012	48.0
1986 est.	18,907	9,907	9,000	52.4
	U.S. INDUSTRIAL and HOME FURNISHINGS MARKET 3/			
1973	14,056	811	13,245	5.8
1974	13,383	676	12,707	5.1
1975	12,673	476	12,197	3.8
1976	13,758	669	13,089	4.9
1977	14,306	706	13,600	4.9
1978	14,818	785	14,033	5.3
1979	14,804	651	14,153	4.4
1980	13,774	642	13,132	4.7
1981	13,461	800	12,661	5.9
1982	12,663	874	11,789	6.9
1983	14,196	1,513	12,683	10.7
1984	14,944	2,186	12,758	14.6
1985	15,318	2,510	12,808	16.4
1986 est.	16,793	2,791	14,002	16.6

1/ Imports include finished goods, fabrics and yarn, of cotton, wool and man-made fibers only. 2/ Imports include apparel and apparel fabrics and yarn, of cotton, wool and man-made fibers only. 3/ Imports include finished goods and non-apparel fabrics, of cotton, wool and man-made fibers only.

(Est.) = Preliminary estimate of 1986 data.

American Textile Manufacturers Institute
February 27, 1987

Table 2.--Apparel and textile mill products: U. S. producer's shipments, exports, imports for consumption, (c.i.f. plus duty-paid value), apparent consumption, total consumption, total employment, and capital expenditures, 1978-86

Year	Producers' shipments	Exports	Imports	Apparent consumption	Ratio of imports to consumption	Total employment	Capital expenditures
	-----In millions of current dollars-----				(Percent)	(1,000 persons)	(Million dollars)
			Apparel (SIC 23) 1/				
1978	42,742	1,035	7,561	49,268	15.3	1,332.3	514.5
1979	43,030	1,387	7,727	49,370	15.7	1,304.3	523.8
1980	45,788	1,604	8,529	52,713	16.2	1,263.5	607.7
1981	49,823	1,628	10,068	58,263	17.3	1,244.4	646.0
1982	53,387	1,271	11,038	63,154	17.5	1,161.1	654.2
1983	55,373	1,114	12,969	67,228	19.3	1,163.4	612.2
1984	57,577	1,065	17,979	74,491	24.1	1,185.3	742.2
1985	56,993	1,019	20,004	75,978	26.3	1,125.3	697.1
1986	54,583	1,213	23,019	76,389	30.1	1,115.4	NA
			Textile mill products (SIC 22) 2/				
1978	42,281	1,466	2,288	43,103	5.3	899.1	1,355.9
1979	45,137	2,130	2,235	45,242	4.9	885.1	1,327.9
1980	47,256	2,488	2,433	47,201	5.2	847.7	1,487.4
1981	50,261	2,326	2,969	50,904	5.8	823.0	1,713.7
1982	47,510	1,766	2,665	48,409	5.5	749.4	1,578.8
1983	53,359	1,559	3,044	54,844	5.6	741.3	1,580.3
1984	55,488	1,541	4,163	58,110	7.2	746.2	1,732.4
1985	53,275	1,462	4,253	56,066	7.6	703.7	1,863.3
1986	54,607	1,653	4,899	57,853	8.5	708.8	NA

1/ SIC 23 also includes miscellaneous textile products made in "cut-and-sew" shops; such products accounted for 19% of total SIC 23 producer shipments in 1982. 2/ SIC 22 also includes apparel made in knitting mills; such apparel accounted for 14% of total SIC 22 producer shipments in 1982.

Note.--Producers' shipments may be overstated to the extent that contractors' and suppliers' shipments are duplicated in Census totals for the two-digit industry group.

Prepared by U.S. International Trade Commission (Textiles Division) from official Census and BLS data.

June 1, 1987

TEXTILE FINISHED GOODS MARKET

Table 3.-- Total Textile Market

Year	Production	Exports	Imports	Market	Import Market Share (%)
	—— (millions of square yard equivalents) ——				
1976	25,080	740	2,778	27,118	10.2
1977	26,343	814	2,793	28,322	9.9
1978	26,514	885	3,301	28,930	11.4
1979	26,448	1,156	3,084	28,376	10.9
1980	25,394	1,800	3,287	26,881	12.2
1981	24,714	1,357	3,627	26,984	13.4
1982	23,531	932	3,961	26,560	14.9
1983	24,566	1,040	4,967	28,493	17.4
1984	24,546	1,062	6,327	29,811	21.2
1985	24,434	896	7,014	30,552	23.0
1986	26,014	1,026	7,794	32,782	23.8
			APPAREL MARKET		
1976	12,007	273	2,449	14,183	17.2
1977	12,739	324	2,466	14,881	16.6
1978	12,515	348	2,902	15,069	19.3
1979	12,411	472	2,671	14,610	18.3
1980	12,130	968	2,884	14,046	20.5
1981	11,873	743	3,136	14,266	22.0
1982	11,661	474	3,382	14,569	23.2
1983	11,579	438	3,874	15,015	25.8
1984	11,404	451	4,717	15,670	30.1
1985	11,382	374	5,117	16,125	31.7
1986	12,179	454	5,796	17,521	33.1
			NON-APPAREL MARKET (Household and Industrial)		
1976	13,073	467	329	12,935	2.5
1977	13,604	490	327	13,441	2.4
1978	13,999	537	399	13,861	2.9
1979	14,037	684	413	13,766	3.0
1980	13,264	832	403	12,835	3.1
1981	12,841	614	491	12,718	3.9
1982	11,870	458	579	11,991	4.8
1983	12,987	602	1,093	13,478	8.1
1984	13,142	611	1,610	14,141	11.4
1985	13,052	522	1,897	14,427	13.2
1986	13,835	572	1,998	15,261	13.1

IAO/OTEXA/ERA
29-Apr-87

Provided by the U.S. Department of Commerce, Office of Textiles and Apparel at the request of the Subcommittee on Trade.

VICE CHAIRMAN

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

July 13, 1987

Honorable Sam Gibbons, Chairman
Subcommittee on Trade
Committee on Ways and Means
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In your letter of June 11, 1987 to the Commission, you requested, among other things, a description of Commission practice and advice as to the appropriate method for determining import market share in the textile and apparel industries. On Friday, July 10, the Commission provided a response to your requests in a memorandum prepared by the Commission staff.

This letter supplements the Commission's response and clarifies an important point which I believe is not adequately explained in that response. Specifically, while the Commission memorandum enumerates the circumstances in which the Commission has used quantity measures of import penetration, and notes that the Commission majority has on occasion used value-based measures, I do not believe that it clearly explains the circumstances in which value-penetration ratios are more appropriate. I would like to add that, in my opinion, when the products are identical, or when imports and the comparable domestic product can only be priced at different points in the chain of distribution, quantity-based import penetration ratios are generally preferable, primarily because it is usually easier to obtain quantity data. However, when the product category under consideration is made up of a mixture of goods (i.e. goods with different physical characteristics or physically identical goods with different service attributes), or if the goods come in a variety of qualities, value-based penetration ratios are more appropriate than those based on quantities. The reason is that quantity-based penetration ratios necessarily aggregate quantities of dissimilar goods in a manner that weights them equally, as though they were identical--which produces a misleading result. This problem does not arise with value-based penetration ratios, because they capture dissimilarities between goods in the different prices of the goods, so that the calculations use the appropriate (unequal) value weights that are associated with the different goods.

I hope you will find this comment useful in answering your questions about import penetration. If I can be of further assistance, please do not hesitate to call upon me.

Sincerely,

Anne E. Brunsdale

Anne E. Brunsdale
Vice Chairman

AB:aem

STATEMENT BY THE U.S. DEPARTMENT OF COMMERCE REGARDING DIFFERING MEASURES OF IMPORT PENETRATION IN TEXTILE AND APPAREL MARKETS

In conjunction with testimony before the Subcommittee on Trade of the House Ways and Means Committee in May 1987, the Commerce Department provided a set of data tables depicting the current economic status of the U.S textile and apparel industries. These data were compiled by the Office of Textiles and Apparel (OTEXA), and included calculations showing import penetration (the ratio of imports to apparent domestic consumption) in apparel, nonapparel, and total textile finished products. After OTEXA furnished their import penetration figures, considerable controversy arose over the fact that separate data purporting to measure the same thing but differing substantially from the Commerce data were supplied by the American Textile Manufacturers Institute (ATMI). In reply to the questions arising from this discrepancy, OTEXA has prepared this paper to explain the difference in methodology employed in developing the Commerce and ATMI numbers.

OTEXA, which has provided import/consumption ratios in textiles and apparel in response to several requests over the past several years, is aware of the inherent deficiencies in import penetration ratios as an analytical measure and the potential that exists for their misinterpretation or misuse. Nevertheless, these ratios are commonly employed to indicate the competitive pressures from imports that an industry is facing, and over time can provide some indication of relative competitiveness. Technical questions and problems regarding the construction and use of import penetration ratios are outside the scope of this paper and are not discussed.

The explanation of the differences between the Department of Commerce and ATMI import penetration ratios rests partly in the difference between what the two calculations are trying to measure. The DOC figures portray the domestic market for finished textile goods in terms of a standard model of apparent consumption, i.e. domestic production minus exports plus imports equals apparent domestic consumption (P-E+I = C). In this model, the import penetration ratio is calculated as imports divided by consumption (I/C) which expresses the percentage share of domestic consumption accounted for by imports. These calculations are made for the apparel and nonapparel (household and industrial) markets. The sums of these two components represent the total U.S. market for finished textile products.

The headings of the DOC tables showing this data explicitly referred to "finished goods" to indicate that the markets being examined were for end-products only, i.e. including only goods in their final stage of manufacture and in the form that they are bought by the consumer. Therefore, only U.S. imports of apparel and nonapparel finished goods are shown in the tables, based on the generally accepted definition of a market as trade in a like category of merchandise at a comparable stage of production. Under these definitions, a substantial quantity of U.S. textile product imports are not included in the DOC calculations because they are not finished goods. These are the yarns and fabrics imported at an intermediate stage of production for incorporation by U.S. textile and apparel producers into domestic production of finished goods. The position of the Department is that if these imports are to be properly accounted for in an analysis of import penetration, it must be as part of the intermediate yarn and fabric markets in which they directly compete.

In calculating its import penetration measures, ATMI claims to view the U.S. textile-apparel complex from a different vantage point and therefore attempts to measure the "market" for textiles and apparel more comprehensively, i.e. to include the intermediate products imported as yarns or fabrics along with the imported finished goods which impact on the domestic markets for textile products. This is done because all these imports are seen as displacing potential U.S. production, whether the imports are in the form of yarn and fabric or finished goods.

The problem with this approach is that the imports of yarn and fabric are counted twice: once as imports and once as components of domestic finished goods production. The addition of these yarn and fabric imports to the P-E+I = C equation means that they appear at two different stages of their product lifetime, whereas wholly domestic goods are shown only once, i.e. at the finished good stage.

Although the ATMI methodology addresses some of the conceptual realities of the industry they represent, it also introduces some serious distortions. Their analysis is misleading because of the inclusion of both intermediate and finished goods imports, deviating from the normal definition of a market as trade in similar products at the same stage of processing. It also inflates the import penetration ratios because, while imports of yarns and fabrics are included, domestic production of yarns and fabrics are not treated in a parallel manner. In our view, the ATMI figures represent an effort to measure the impact of all yarn, fabric, and apparel imports on the textile industry; they do not represent import shares of the U.S. market for finished textile products.

Office of Textiles and Apparel
Industry Assessment Division
June 15, 1987

TECHNOLOGY ASSESSMENT BOARD
MORRIS K. UDALL, ARIZONA, CHAIRMAN
TED STEVENS, ALASKA, VICE CHAIRMAN
ORRIN G. HATCH, UTAH
CHARLES E. GRASSLEY, IOWA
EDWARD M. KENNEDY, MASSACHUSETTS
ERNEST F. HOLLINGS, SOUTH CAROLINA
CLAIBORNE PELL, RHODE ISLAND
GEORGE E. BROWN, JR., CALIFORNIA
JOHN D. DINGELL, MICHIGAN
CLARENCE E. MILLER, OHIO
DON SUNDQUIST, TENNESSEE
AMO HOUGHTON, NEW YORK
JOHN H. GIBBONS

Congreſs of the United States
OFFICE OF TECHNOLOGY ASSESSMENT
WASHINGTON, DC 20510-8025

JOHN H. GIBBONS
DIRECTOR

June 22, 1987

The Honorable Sam Gibbons
Chairman
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Congressman Gibbons,

When I testified before your Trade Subcommittee at the June 2, 1987 hearing on H.R. 1154, several questions were raised which I promised to answer for the record. I trust that the enclosed material provides you with the information required.

Sincerely

Henry Kelly
Senior Associate

Enclosure

cc: The Honorable Bill Frenzel
The Honorable Philip M. Crane

JUN [illegible] 1987

TECHNOLOGY ASSESSMENT BOARD
MORRIS K. UDALL, ARIZONA, CHAIRMAN
TED STEVENS, ALASKA, VICE CHAIRMAN
ORRIN G. HATCH, UTAH
CHARLES E. GRASSLEY, IOWA
EDWARD M. KENNEDY, MASSACHUSETTS
ERNEST F. HOLLINGS, SOUTH CAROLINA
CLAIBORNE PELL, RHODE ISLAND
GEORGE E. BROWN, JR., CALIFORNIA
JOHN D. DINGELL, MICHIGAN
CLARENCE E. MILLER, OHIO
DON SUNDQUIST, TENNESSEE
AMO HOUGHTON, NEW YORK
JOHN H. GIBBONS

Congress of the United States
OFFICE OF TECHNOLOGY ASSESSMENT
WASHINGTON, DC 20510-8025

JOHN H. GIBBONS
DIRECTOR

QUESTIONS RAISED AT THE JUNE 2, 1987 HEARING OF THE TRADE SUBCOMMITTEE, HOUSE COMMITTEE ON WAYS AND MEANS

(1) Chairman Gibbons asked whether double counting had inflated estimates of foreign penetration of U.S. textile and apparel markets. Two issues are involved here:

1. What units should be used to express penetration? and
2. Given a consistent set of units, are the penetration ratios calculated honestly?

As I indicated in the discussion at the hearing, penetration is sometimes expressed in ratios of dollars, and sometimes in square yards. Our report, The U.S. Textile and Apparel Industry: A Revolution in Progress (OTA 1987) compares import data measured in square yards with import data measured in dollars. As our report points out in several places, trade penetration in dollars is lower than trade penetration measured in physical units because of the comparatively low price of many imported goods. Import penetration measured in physical units provides useful information for some purposes, while import penetration measured in dollars is useful for others. The OTA report uses both.

In 1985, the last year for which comparable data are available, an examination of penetration rates calculated for each of the two units yields the results shown in Table A.

Chairman Gibbons cited a Department of Commerce memo stating that the import penetration rate for all textiles and apparel was 33 percent. This is consistent with the square yardage penetration ratios for 1985, as indicated in table A and in table 10 of our report (p. 80).

Clearly, import penetration in some parts of the domestic textile and apparel industry is higher than 33 percent and lower in others. If, as is conventionally done, apparel import penetration includes imports of fabric that will be converted to apparel domestically, apparel imports were 48 percent (in square yards) in 1985, while the same calculation for non-apparel textiles yields an import penetration ratio of 16.4 percent. When import penetration is measured in square yards and for apparel sectors *only*, penetration rates stand at or around 50 percent (higher rates may indicate that imports are increased to include items not counted in the statistics cited above, or that apparel has been subdivided into different materials).

During the hearing, we were asked why we used industry data. The data series provided by the American Textile Manufacturers' Institute (ATMI) was, to our knowledge, the only source of consistent statistics for square yardage that spanned the entire domestic industry and all aspects of textile and apparel trade. It has only recently been possible to make consistent estimates of import penetration based on square yardage, because ATMI has only recently completed a major project to express textile and apparel trade and domestic production using a consistent square yard equivalent basis. (See American Textile Manufacturers Institute, Economic Information Division, "The U.S. Textile Market Measured in Square Yard Equivalents 1973-1985," Washington DC, September, 1986.)

The ATMI analysis was reviewed by the Office of Textiles and Apparel at the Department of Commerce. We contacted this office, and their specialists confirmed that they had carefully reviewed the document and found no reason to question the accuracy or consistency of the data. Our information on the dollar value of trade--and on data for other statistical measures of industry performance--are taken from the U.S. Departments of Commerce and Labor.

(2) We were asked several questions about how changes in the value of the dollar influence textile and apparel trade. First, we were asked about how we calculated changes in the "textile-weighted dollar," discussed on page 88 of our text. The "Textile Weighted Dollar Index" we used was computed by taking the weighted average of the ratio of the value of a nation's currency in the year in question to its value in January, 1981. The weights are based on that nation's percentage contribution to U.S. textile and apparel imports in 1983/84. The calculation used data from the 13 nations contributing 80% of U.S. imports in 1983/84: Italy, Taiwan, France, United Kingdom, South Korea, Thailand, Singapore, Hong Kong, India, Philippines, Mainland China, Mexico, Japan.

In response to a question raised during the hearing, we have computed a textile dollar for June 1987 using similar methods. Because of time limitations, we did not recompute weights from recent trade data for the 1987 calculation, and continued use of the 1983/84 weights. Using this approximation, we find that the import weighted dollar continued to increase through June, 1987. The changes in the value of the Mexican Peso were so large during the period examined that the Peso had a strong effect on this weighted average, despite the fact that Mexico's weight is less than 3 percent. In fact, the dollar weighted by textile imports without including Mexico actually fell slightly between 1985 and 1987.

We were also asked questions about changes in specific currencies important to textile and apparel imports. Table B shows how the value of the currencies the 13 nations used to compute the "textile dollar" cited earlier changed between September 1985 and June 1987. While the dollar fell sharply with respect to Japan and European nations, it did not change significantly with respect to many nations in the Far East, and rose sharply against the Mexican Peso. Currencies of Haiti and the Dominican Republic, while not shown in the table because these countries are not among the largest sources of U.S. textile and apparel imports, have also not changed significantly with respect to the dollar since 1985.

(3) We were asked whether, in our section concerning trade policies in other markets, we were concerned with the fact that our citations come from statements made during the 1970s. In certain analyses of individual developing country barriers, we do discuss actions taken by governments in the Pacific Rim taken during the 1970s. In each instance, however, either such actions are mentioned in their historical context, and are followed by a more recent descriptions, or the governments in these countries have maintained the policies put into place at that time.

Our information on the textile and apparel trade policies of developing nations comes from several sources. The most recent comprehensive global study on this subject was a 1984 survey of 21 developing nations, completed by the Secretariat of the General Agreement on Trade and Tariffs (GATT). We, too, wish that a similar global survey from an objective source had been conducted since that time, but finding none, we chose to use GATT as both the most recent *and comprehensive* source. For other statistics we cite an April 1986 paper published by the International Trade Administration at the U.S. Department of Commerce, "Foreign Regulations Affecting U.S. Textile/Apparel Exports." The scope of this paper is somewhat narrower than the work done by GATT, since it affects only those nations to whom the United States exports textiles and apparel. We also cite an August 1985 report on foreign trade policies prepared for the Fiber, Fabric, and Apparel Coalition for Trade. To our knowledge, these three sources constituted the best available context for trade policy analysis at the time that our report draft was completed (March 1987).

Our discussion of actions taken by Japan and the European Economic Community covers only the period since 1980.

(4) We were asked about our general conclusion that earnings and profits are sagging in the industry. We made no such conclusion. On page 3 of our report, we cite the November 1986 Congressional Budget Office (CBO) report, "Has Trade Protection Revitalized Domestic Industries?" (p. 34), and state that measured in constant dollars, "net profits from the sale of textiles have not changed significantly during the past two decades." Profits data are unavailable in the apparel industry, as indicated by CBO.

(5) We were asked about our statement that the United States is one of the few nations that has left its markets largely open to textiles and apparel. As we responded at the hearing, this is a comparison between U.S. and foreign markets, and not between the U.S. textile and apparel industry and other U.S. industries. This statement is based on the findings of a 1984 study prepared for the Organization of Economic Cooperation and Development (OECD), cited first on page 5 of our report. In that document, several European economists noted that the U.S. government has "persistently opposed the concept of direct government intervention of the types undertaken by its counterparts in Europe and the Asia Pacific region" (see OTA, 1987, p. 5).

(6) We were asked about the accuracy of figures that we provided on Japanese exports of textiles and apparel to the United States (pp. 108-109, point #2, footnoted to an article in the ATMI publication Textile Trends). The first statistic was in reference to a November 1986 bilateral agreement between Japan and the United States, which limited annual growth of Japanese textile and apparel exports to the United States to 0.8 percent. We have reconfirmed this information with the Office of the U.S. Special Trade Representative.

The second point concerns actual data on U.S.-Japan trade in textiles and apparel. Between January and September of 1986, U.S. imports of textiles and apparel (measured in terms of volume) were 18 percent greater than the import levels for the same time frame in 1985. We reconfirmed this fact with the Office of Textiles and Apparel at the U.S. Department of Commerce. However, while the volume of U.S. textiles and apparel imported from Japan (counted at point of arrival in the United States) during the period in question indeed did grow by 18 percent, Japanese shipments of textiles and apparel *destined for* the United States (counted at point of departure from Japan) may have grown at a different rate; the difference is due to the fact that departure from Japan occurs at an earlier date than arrival in the United States. Our text uses the term "exports," which does not make this distinction clear.

Table A

Import Share of the U.S. Market in Textiles and Apparel, 1985
(measured in dollars and square yard equivalents)

	(millions of units)		(percent)
	U.S. Market	Imports	Penetration Rate
Textiles and Apparel			
measured in dollars(SIC 22+23)*	$128,690(a)	$21,330	16.5%
measured in square yards**	32,652yds(b)	10,831yds	33.2%
Apparel			
measured in dollars (SIC 23)*	$72,762	$16,056	22.0%
measured in square yards**(c)	17,334yds	8,322yds	48.0%
Non-Apparel Textiles			
measured in dollars (SIC 22)*	$55,928	$5,274	9.4%
measured in square yards**(c)	15,318yds	2,510yds	16.4%

(a)U.S. market=value of domestic shipments (U.S. production)
+value of imports
-value of exports

(b)U.S. market=volume of U.S. output
+volume of imports
-volume of exports

(c)These two rows divide the volume measurements for all textiles and apparel (penetration rate--33.2%) into apparel and non-apparel sectors. It should be noted that this separation does not correspond precisely to the breakdown by SIC (standard industrial classification) codes used in the dollar measurements.

*Source: U.S. Department of Commerce, International Trade Administration, 1987 U.S. Industrial Outlook, for U.S. market; Bureau of the Census, Foreign Trade Division, for trade data.

**Source: American Textile Manufacturers' Institute, "The U.S. Textile Market Measured in Square Yard Equivalents, 1973-1985," Washington, DC, May 1987. This document was reviewed by the Office of Textiles and Apparel at the Commerce Department's International Trade Division, who verified the data and analysis.

Table B

Percentage Change in Exchange Rate of Local Currency to the U.S. Dollar, 9/85 to 6/87

	Approx. Percent of Imports in 1983/84	Percent Change in Exchange Rate 9/85 to 6/87
Japan	8	-34
Italy	6	-27
Taiwan	13	-22
France	2	-20
United Kingdom	2	-14
South Korea	13	-9
Thailand	2	-5
Singapore	1	-1
Hong Kong	15	1
India	3	6
Philippines	2	9
Mainland China	11	26
Mexico	2	253
Total of listed Countries	80%	

Sources: Exchange rate data from International Monetary Fund and the Wall Street Journal, trade data from U.S. Bureau of the Census, Foreign Trade Division.

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

May 29, 1987

TO : House Committee on Ways and Means
Subcommittee on Trade
Attention: Janet Nuzum

FROM : Edward B. Rappaport
Analyst in Industry Economics and Finance
Economics Division

SUBJECT: Issues in Measuring Imports in the Textile and Apparel Markets

This memorandum addresses the questions you posed concerning which statistics most reliably describe the share supplied by imports in the U.S. market for textiles and apparel. First will be discussed the question of how textile markets should be distinguished from apparel markets, and the merits of treating them as an aggregate. Then the question of units of measurement is considered. Finally, some thoughts are offered on the general role and relevance of import share measures in assessing market conditions.

Markets for Finished versus Intermediate Goods

The textile and apparel industries are closely related, 1/ as approximately 40 percent of U.S. fabric output goes into apparel and roughly 30 percent of the cost of apparel is accounted for by textile inputs. This close relationship (and the further involvement of raw fiber industries) leads to the concept of a "fiber/textile/apparel (FTA) complex." Although this is a potentially useful concept, substantial difficulties arise when trying to statistically aggregate its com-

---

1/ As used in this memorandum, "textile" refers to all fiber-based products except apparel.

ponents. Given the current array of available statistics, greater accuracy and clarity will be retained by treating the textile and apparel industries separately.

Nevertheless, it would be unrealistic to completely ignore the fact that much of the textile industry's output consists of intermediate goods (fabric, thread, etc.) that are key inputs to apparel production. Upstream producers experience changes in downstream markets indirectly, in the guise of changes in the derived demand for their own products. In recognition of this dependence, the American Textile Manufacturers Institute (ATMI) compiles its statistics in terms of potential downstream markets. In the case of the apparel-oriented segment, the potential market for U.S. textile producers consists of U.S. apparel consumption. The relevant imports are of two types, finished apparel and apparel materials (fabric, yarn, trim and so forth). Either type of import reduces the residual demand for the products of the textile industry. Furthermore, when all of these products are measured consistently in square yards equivalent, imports in both forms can be simply added together in deriving the import share in the "apparel and apparel fabric market." 2/

The measure just described should not be confused with the import market share faced by apparel producers. They also would define the market as U.S. consumption, but the imports of relevance to them would be finished apparel only. This can be illustrated by using the figures compiled by ATMI, 3/ according to which apparel imports in 1985 comprised 5.117 billion square yards equivalent (SYE) and represented 29.5 percent of the U.S. apparel market of 17.334 billion yards. By contrast, ATMI states the import market share as 48.0 percent, because they also include 3.205 billion yards of apparel fabric and yarn imports. From

---

2/ As correctly labeled in the summary table in American Textile Manufacturers Institute. The U.S. textile market measured in square yard equivalents, 1973-1985. Washington: ATMI, May 1987. In other places (even in tables in the same document), reference is made to the "apparel market," which is a less cumbersome phrase but potentially confusing.

3/ Ibid.

the point of view of textile producers, imported fabrics and imported apparel have the same effect in terms of lost market opportunity. If domestic apparel producers used imported fabric exclusively, the ATMI statistic would indicate 100 percent import penetration in the "apparel and apparel fabric market."

The two percentages just discussed measure the prevalence of imports as experienced at two different levels of the apparel-oriented segment of the FTA complex. The rest of the complex, comprising industrial products (such as tire cord) and "domestics" (home furnishings) is referred to in ATMI's report as "the non-apparel textile market" and estimated by them to have an import share in 1985 of 16.4 percent. Imports, exports and production of the two segments can then be added together to describe the FTA complex as a whole (assuming the validity of the SYE as a common denominator).

Instead of dividing the complex by end-use segment, though, it is more customary to divide it by level (upstream versus downstream), while implicitly treating apparel as if it were the only downstream industry. When doing so, "non-apparel" means any product which literally is not apparel, whether or not the product will be incorporated into apparel. The import share at the apparel level would be the 29.5 percent cited above, while imports of "non-apparel" (again using ATMI's estimates for 1985) would consist of 3.205 billion yards of apparel fabrics, 0.595 billion yards of fabric not for apparel, and 1.915 billion yards of "made-up goods" (pillowcases, curtains, etc.). These 5.715 billion yards of imports represent 29.9 percent of a "non-apparel" market of 19.118 billion yards. 4/ In contrast to the segment-oriented approach discussed above, it is not valid to add together the components of the FTA complex by level, as there would be elements of double counting.

4/ This market consists of the 15.318 billion characterized by ATMI as the "U.S. non-apparel textile market" plus the 3.800 billion of imported fabrics and yarns (of all types).

One further aspect of market definition does not usually receive attention but could be of significance, and that is the role of U.S. exports. It will be noted that the relevant potential market has been defined as U.S. consumption, so that export markets have been left out of the analysis. Yet textile exports are substantial: Before the appreciation of the dollar around 1983, there were several years when the U.S. had a positive balance of trade in non-apparel textiles. If both exports and imports were to further increase by equal quantities, import penetration (by any measure) would show an increase, whereas U.S. textile and apparel production would be unchanged in aggregate volume and perhaps improved in terms of efficiency. An important instance where two-way trade is directly linked is offshore processing under Item 807.00 of the Tariff Schedules of the United States. This program, which accommodates the reentry of garments sewn offshore from fabric woven and cut in the U.S., accounts for most of our apparel imports from the Caribbean and the Philippines.

Rather than the partial view conveyed by import penetration measures, a more comprehensive assessment of competitiveness might be conveyed by measures such as U.S. share of world production.

Units of Measurement

The textile industry has sometimes been described as buying by the pound and selling by the yard. This truism leads to the insight that the various participants in the FTA complex will prefer different ways of measuring the markets. There is even a tendency to express the volume of some products, such as rope, in "equivalents," such as square yards, into which there is no corresponding physical conversion.

Generally, the use of standardized physical units makes sense when a relatively homogeneous group of products is under consideration or when the question at hand is the utilization of capacity in a particular phase of production. For instance, homogenous products could be knit cotton pants and knit cotton shirts. Allocating productive capacity would be a question if, say, a synthetic fiber producer could shift from supplying the carpet market to the cordage market. Then the poundage that could be sold would be the principle concern. These situations are characterized by a rough proportionality between the standardized physical unit and the economic values involved -- namely, the quantities of productive inputs used and the value of the output to the consumer.

Dollar measurements are more useful when a heterogenous range of products or production stages are involved, and when the impact on the general economy is of concern. If the price system is working as suggested by classical economic theory, product prices will reflect the quantity of resources used in their manufacture. As an illustration of this principle, consider again the issues involved in the textile industry's concept of an "apparel and apparel fabric market." From the point of view of the fabric producer, the economic impact of a garment being imported is virtually the same as the impact of importing the fabric from which the garment is made. But for the economy as a whole, the impact of importing the garment is greater. The garment embodies not only the fabric, but also the labor, the buttons, the styling, and all the other inputs necessary to convert the intermediate product into the final product. Dollar values reflect the larger quantity of resources embodied in the final product (except in the abnormal case that the garment sells for less than the cost of the fabric in it). Square yard equivalents would not reflect this difference.

Similarly, when items in a given product category vary in quality, prices reflect their relative values according to the preferences of consumers. In the classical model of consumer behavior, the individual will balance his or her "basket of goods" so as to equalize the satisfaction (utility) gained by spending one additional dollar on any of the goods in the basket. If wool sweaters sold for five times as much as orlon sweaters, this would mean that for the marginal consumer one wool sweater is "worth" five orlon sweaters. To see the implication for trade policy, consider a simplified situation where only wool sweaters are made domestically and only orlon sweaters are imported. Restrictions are then implemented whereby the imports of orlon sweaters are reduced by one million dozen. According to the theory presented here, domestic consumers would not replace the imports with one million dozen wool sweaters, but by 200,000 dozen or slightly more; 5/ that is, by a roughly equal dollar expenditure rather than an equal number of units. Therefore import shares in dollar terms more closely reflect what market opportunity has been lost for the domestic industry due to imports.

In general, imported textile and apparel products have a lower value per physical unit than their domestic counterparts. 6/ Accordingly, import shares measured in dollar terms will generally be lower than when measured in physical units.

Despite the theoretical merits of value-based measures, consistent statistics in value terms are not systematically compiled, nor would it be easy to do so in a completely reliable way. The most readily available import statistics are based on "customs value" which is, roughly speaking, the purchase price in the country of origin. This is usually lower than the wholesale price of comparable domestically produced merchandise; otherwise, there would be insufficient incentive to bear the costs, risks and delays inherent in overseas sourcing. This introduces a downward bias when estimates of import market share are made with customs valuation of imports. The International Ladies Garment Workers Union (ILGWU) has derived

---

5/ The hypothesized restriction is presumed to be very small in comparison to the size of the market. But if supply is reduced appreciably, the price of orlon sweaters will rise relative to the price of wool sweaters. If the price goes to, say, 0.5 times the price of wool (instead of the initial 0.2), then the marginal consumer will be one who considers two orlons worth one wool and will switch his or her consumption at that ratio (instead of five to one). Similarly, inframarginal switchers will do so at intermediate ratios of less than five to one.

6/ For the entire textile and apparel sector, the average value of domestically produced products in 1986 was $4.11 per square yard equivalent, versus an average of $2.86 per yard for imported products.

adjustment factors in a way that is valid in principle, but has not escaped the problem of subjectively comparing quality levels. 7/ By making adjustments to the reported value per pound ratios for each category of imports, ILGWU tried to reconstruct the "corresponding domestic price" for "substantially identical merchandise." For the garment industry as a whole, ILGWU concludes that the customs figures undervalue imports by a factor of about three. It is not clear, however, whether others would reach the same result after going through the exercise of subjectively adjusting for quality differences.

The Meaning of Import Penetration

Assuming the market has been appropriately defined and the quantities of imports and domestic consumption properly measured, what does the import/consumption ratio tell us? On the surface, an x percent ratio seems to suggest that x percent of the market has been "taken" by foreign suppliers and that if they were eliminated, domestic producers would increase their sales 8/ by x percent of current consumption or, equivalently, by x/(1 - x) percent of current domestic production.

Closer analysis shows, however, that "the market" is not a fixed quantity. If imports were eliminated (or even partially eliminated), domestic producers would have an opportunity to raise prices. If prices rose, consumption would decrease. Hence the policy of exclusion would not "retake" the x percent of current consumption, but would lead to increased domestic production by less than that much, the difference representing the decrease in consumption. Nevertheless, domestic producers would get the benefit of higher prices.

7/ International Ladies' Garment Workers' Union. Estimation of Apparel (Knit and Woven) Imports/Methodological Note. New York: ILGWU. April, 1983. 16 p. (mimeo)

8/ Here we treat production and sales (shipments) as equivalent. The difference between the two is inventory accumulation or depletion. Manufacturers' inventory will fluctuate but eventually return to a "normal" level, so accumulation is not a factor of concern in a long-run analysis.

The amount by which prices could be raised while still selling all of the goods depends on the elasticity of demand. If supply were reduced by x percent, prices could be raised by 1/e times x percent, where e is the elasticity. Some quantitative studies have indicated that e is less than 1 for textiles and apparel. 9/ If so, prices could be raised more than x percent and total domestic expenditure on these products would be greater despite the decreased consumption in volume terms. In terms of revenue, then, x percent understates what has been lost to foreign competitors. x describes the shape of the "slice," but the pie itself could be enlarged were it not for the imports.

For many of the people involved with the industry, such as workers and outside suppliers of goods and services, volume of production will be the most important variable. And, due to the price effects just discussed, volume will increase by an amount which is less than x percent of the current market. For those who supply productive inputs (labor, machinery, etc.), x percent overstates what can be regained by excluding foreign competitors.

As with the definition of market and choice of measurement units, the most relevant measure of import share will depend on the particular interests of those using the information.

Finally, one may wish to use import penetration figures for comparing industries. The present discussion should make clear that -- aside from the basic measurement problems -- the significance of an identical import share in two different industries may be quite different. Not only do demand elasticities vary, but the consequences for suppliers of productive inputs depend on the industry's elasticity of supply as well. But unfortunately, elasticities have not been accurately estimated for most product groups.

9/ See citations in Kaplan, Daniel P. and Peter Siegelman. Protecting the textile and apparel industries. Washington: Congressional Budget Office (staff working paper). September 1985. p. 28

Summary

(1) Definition of market, choice of measurement units, and interpretration of results must all be considered in light of the particular economic interests in question.

(2) Import shares measured by dollars have a greater validity than physical unit measures in terms of consequences for the overall national economy.

(3) In practice, there is some downward bias in dollar-based import measures due to the practice of using foreign acquisition cost for valuation purposes. ILGWU has attempted to correct for this bias, but their methodology is largely subjective.

(4) There is an upward bias in physical unit measures of import share in the usual case where the imported goods have a lower value per unit than domestic goods in the same category.

(5) Import share measures describe only one aspect of international competition and its consequences for particular industries. A thorough analysis would also include consideration of exports, demand and supply elasticities, productivity changes and so forth.

Please call me at 287-7577 if you have any further questions.

er/mls

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

May 27, 1987

MEMORANDUM

To: Janet Nuzum
Wendell Primus
Subcommittee on Trade
Committee on Ways and Means

From: Daniel P. Kaplan DPK
Natural Resources and Commerce Division

Re: Import Penetration Ratios in Textile and Apparel Markets

This memorandum responds to your questions regarding the validity of various import penetration ratios.

Summary

Increasing imports in a market generally occur at the expense of the domestic industry making similar products. Import penetration ratios -- foreign producers' shares of a domestic market -- provide a rough indication of the impact of imports on these domestic industries. But imports also increase total consumption of the relevant product, and so import penetration ratios generally overstate the effects of imports on domestic markets.

In the textile and apparel industry, import penetration ratios have been calculated in physical terms (such as square yards of material or pounds of fiber) and by value of shipments. Given the diverse range of products within these industries, the value of shipments provides a better basis for assessing the impact of imports on the employment of domestic resources. The problem with physical measures is that domestic production is on average of higher quality than imports--physical import penetration rates, therfore, tend to overstate the level of imports. Using the value of shipments may understate imports, but the likely bias is minor when compared to value-based measures.

Textiles are an important input into the production of apparel, and most imported apparel contains imported textiles. Some measures of textile import penetration, therefore, expand the definition of textile imports to include textiles contained in imported apparel when computing textile import penetration ratios. There is some validity to doing so, since imported apparel generally contains imported textiles, it probably displaces some domestic production. But these statistics measure textiles in physical units and, therefore, may again be misleading. Moreover, these "expanded" statistics contain little additional information beyond what is contained in import penetration measures of the apparel industry -- they count foreign produced clothing as both apparel imports and textile imports.

Discussion

Import penetration ratios measure the percentage of total domestic sales that is produced by foreign manufacturers. Thus, in computing the import share, the sales of foreign producers are divided by total sales in the market. Total sales are equal to the sum of sales from both domestic and foreign producers. U.S. exports are usually not considered in this measure -- in general, so long as exports are small and a constant share of U.S. production, this is not a serious problem.

Physical or Value Measures? If all producers, both foreign and domestic, made identical products (as is often the case, for example, in agricultural products), then import penetration ratios could be based on physical units. But virtually every market contains a wide array of products and this is especially the case for industries as large and diverse as textiles and apparel. Textiles includes everything from finished silk to tire cords; apparel ranges from children's socks to women's formal wear. Moreover, there can be a huge variation in the quality of any given product, e.g., men's suits.

To aggregate these diverse products requires a common unit of measurement. One option is to use a physical standard; in the case of textiles or apparel, this might be square yards or pounds. Alternatively, prices can be used, so that quantities would be expressed as "value of shipments", or revenues.

While no measure is perfect, the value of shipments is preferable. Since imports generally increase total consumption of the product (which including imports and domestic production), both measures overstate the impact of imports on the domestic industry. Nevertheless, value of shipments provides a better indication of the domestic resources affected by imports.

There are huge differences in the resources used in making square yards of different textiles. Similarly, there is a wide divergence in the resources needed to make different apparel items that contain the same amount of a given textile. Thus, these physical measures cannot provide an accurate measure of the resources used in the industries.

The advantages of using value of shipments are most readily seen when considering domestic production. Since most segments of the domestic textile and apparel industry are competitive, differences in prices among the various products correspond to differences in the quantities and prices of the resources employed in making them. Value of shipments, therefore, provide a better indication of the extent to which imports displace domestic resources, such as capital and labor, employed by the industry.

The value of shipments, with some modification, is also the appropriate way to measure imports. If the cost to a retailer or an apparel manufacturer of using imports was substantially below the costs of comparable domestically produced goods, then the retailer would increase purchases of imports. This would drive their price up. Thus, at any given time, the cost of imports to domestic purchasers provides a rough indication of the domestic resources that would be needed to produce a similar product.

While it is best to measure import penetration in terms of values, there are still some problems with the statistics that are commonly used. For example, imports are commonly valued at the port from which they are exported. By ignoring the cost of shipping (which includes freight and insurance) and U.S. custom duties, these statistics seriously understate the costs of imports to domestic purchasers.

The reported value of the textile industries sales must also be adjusted. For the purpose of computing import penetration rates, the Department of Commerce's reported value of domestic shipments within the textile and apparel industry is overstated. Sales of the textile industry (Standard Industrial Classification 22) are equal to the sum of the sales of the various products classified as textiles. In some cases, however, the output of one sector of the industry is an intermediate product for another product. Yarns, for example, are used to make fabrics. But including both as textiles means that yarns that are sold to fabric manufacturers are counted twice in computing the industry's value of shipments. When output is measured in pounds of fiber or square yard equivalents, this double counting is avoided. These measures include only domestic textile production, textile imports, and the textile content of imported products such as apparel.

There are other, harder to quantify, costs that should probably be added as well. They are, however, undoubtedly much less significant than the costs of shipping and tariffs. Using foreign suppliers generally increases the time required to fill an order. This greater lead time increases the probability a firm will order either too little or too much merchandise, and therefore increases inventory risks. This is especially a problem with seasonal and fashionable merchandise. Moreover, greater distances and language barriers increase the costs of dealing with foreign producers relative to domestic firms.

Should "Embodied" Textile Imports Be Included? Demand for the domestic textile industry's output is affected by imports of textiles as well as imports of other products, such as apparel, that contain or "embody" foreign textiles. Thus, measuring only the direct import of textiles understates the impact of apparel imports on domestic textile producers. An extreme example illustrates this point; if all textile production was used for apparel and all apparel was imported, the domestic textile industry would disappear even though there were no textile imports.

Nevertheless, the information contained in this expanded definition of textiles contains essentially the same information as the statistics on apparel imports. And since this information is expressed in physical units, it probably overstates the true impact of apparel imports on the textile industry. Moreover, it implicitly assumes that changes in domestic apparel production have a direct effect on the domestic textile industry. This, of course, would not necessarily be the case if domestic apparel producers expanded by producing products that required imported fabrics.

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

N 29 1987

June 26, 1987

Honorable Sam M. Gibbons
Chairman
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

On June 2, the Congressional Budget Office testified before the Subcommittee on Trade about the effect of trade protection on the textile and apparel industries. At that time, you expressed concern about the wide range of estimates of import penetration ratios presented by various witnesses. CBO has subsequently examined these competing measures and offers the following comments in the hope of clarifying the record.

The concern about imports in the textile and apparel industry stems from concern about their impact on the resources employed in those industries. Since imports increase domestic consumption of a product, import penetration ratios tend to overstate the adverse impact of increased imports on domestic production. But changes in domestic production can be measured directly. Thus, it may be better for the Congress to consider recent output, profits, and employment trends in the industry, rather than import penetration, in determining any adverse impact that increased imports might be having.

In any case, if one were to construct an import penetration ratio to provide an indication of the effect of imports on domestic production, it would be best to compute it using what economists refer to as "value added." In a competitive industry, the price of a product equals the cost of manufacturing it. Consequently, the difference between the value of an industry's sales and the cost of the materials it purchases equals the value created in production, or the value added by the industry. For example, the value added in the apparel industry is equal to the value of the apparel produced minus the value of the textiles used to produce the apparel. Using value added provides the best indication of the effect of imports on a domestic industry, because it reflects that industry's true economic contribution.

Unfortunately, value added data are not available for imported products. One approach might be to use the value of sales as an alternative indication of the resources employed in making textile products. Because the textile industry contains numerous stages of production, however, the industry's reported value of sales overstates its true production. Sales of intermediate products are counted twice--for example, yarn is first counted when it is sold to a fabric producer, and the cost of the yarn is counted again in the price of the finished fabric. The double counting in the value of shipments data reported by the Bureau of the Census cannot be easily removed.

Another way to measure import penetration involves physical units, such as pounds of fiber or square yards of cloth. But domestic manufacturers, on average, produce higher quality output than foreign producers. Consequently, calculating import penetration rates in physical units overstates the impact of imports on resources employed in the domestic industries.

Nevertheless, both the American Textile Manufacturers Institute (ATMI) and the Department of Commerce use square yard equivalents to measure both imports and domestic production. Their estimates of import penetration rates differ, because the Department of Commerce excludes fabric and yarn imports from its measure. Both groups, however, include textiles contained in imported apparel as textile imports.

The treatment of fabric and yarn imports in both studies can be questioned. The textile industry makes yarn out of fibers, and the yarn, in turn, is used to make fabric, although in some cases--sweaters for example--the yarn is knitted directly into final products. By excluding fabric and yarn imports, the Department of Commerce has essentially developed estimates of import penetration in the finished product markets, not the textile market. For example, its estimated import penetration rate of 33.1 percent for textile apparel in 1986 is, in fact, an estimate of the import penetration in the apparel industry. Excluding fabric and yarn imports understates the true import penetration rate in the textile industry.

On the other hand, by including both yarn and fabric imports ATMI tends to overstate the import penetration rate in the textile industry. Since fabric manufacturers presumably use imported yarn, increased yarn imports most likely lead to increased fabric production. The impact of increased yarn imports on the domestic textile industry is therefore ambiguous--at the same time that yarn imports reduce domestic yarn production, they also increase domestic fabric production. Measures of import penetration are generally informative only when they are confined to a single stage of production.

Both ATMI and the Department of Commerce overstate the effect of foreign competition on the domestic industry by eliminating domestic producers' exports from domestic production. By excluding exports, both studies calculate import penetration rates as a percentage of apparent domestic consumption. But exports are a part of domestic production and including them provides a more realistic picture of the effect of trade on the domestic industry.

Because increased imports reduce demand for domestic substitutes, producers of these domestic substitutes demand less output from their suppliers. In other words, imports of apparel affect the domestic textile industry just as imports of cars affect the domestic glass and steel industries. But ATMI is virtually unique in separately including both inputs to the final product--fabric used in making apparel--as well as the final product itself--apparel--as imports. In addition, both ATMI and the Department of Commerce classify "made-ups" as non-apparel products. "Made-ups" include such things as draperies, towels, and other home furnishings, and the Bureau of the Census classifies them as part of the apparel industry.

When textiles contained in imported final products are counted as textile imports, the resulting import penetration ratios would not be comparable to the ratios calculated for other industries. In fact, if every industry followed a similar approach, the sum of industries' imports would greatly exceed the reported imports of all manufacturing.

The ATMI, using physical data, calculates that the import penetration rate in the textile industry for 1985 was 33 percent. Because it includes imports of yarn and excludes the domestic industries' exports, this measure tends to overstate the impact of imports on the domestic industry. Moreover, it includes the textile content of imported apparel and "made-ups." If one excludes imports of apparel and yarn from their calculations and does not exclude exports of domestic firms, the import penetration rate in the textile industry would be 17.1 percent. In addition, if one excluded the textiles in imports of "made-up goods," the import penetration ratio in the textile industry would be 8.5 percent.

During your hearings, import penetration rates in excess of 50 percent in the textile industry were cited. Such a high rate can be achieved only by focusing on one segment of the industry--domestic production of textiles used in apparel--and by including the textile content of imported apparel. But textiles used in apparel represent less than half the industries' output; textiles used for household furnishings and industrial uses are each roughly as large. Although the industry is becoming more specialized, most major textile manufacturers continue to produce products in each of these segments. Concentrating analyses on only textiles used for apparel will greatly overestimate the true impact of imports on the textile industry.

Because of the lack of the appropriate value added or value of sales statistics, CBO does not have sufficient information to provide an estimate of the correctly computed import penetration ratios in the textile industry. As previously discussed, however, there is ample reason to believe that if the import penetration ratio was calculated using values and the analysis was limited to the textile industry, the import penetration rate would be less than 10 percent. Import penetration in the apparel industry is undoubtedly substantially higher, though probably less than 35 percent. But, as noted previously, no import penetration ratio, regardless of how it is computed, accurately measures the impact of imports on domestic resources. Direct measures of changes in industry output, employment and profits would provide a more accurate gauge of the impact of rising imports on a domestic industry.

With best wishes,

Sincerely,

Edward Gramlich
Edward M. Gramlich
Acting Director

CC: Honorable Philip M. Crane
Ranking Minority Member

U.S. DEPARTMENT OF COMMERCE,
INTERNATIONAL TRADE ADMINISTRATION,
Washington, DC, June 18, 1987.

Memorandum for: Kristin Paulson, Office of Congressional Affairs.
From: Ronald I. Levin, Acting Deputy Assistant Secretary for Textiles and Apparel.
Subject: Comments on Testimony by Office of Technology Assessment (OTA).

The Congressional testimony on June 2 by the OTA contained erroneous statements concerning the Department of Commerce. Our comments are attached.

COMMERCE DEPARTMENT COMMENTS ON JUNE 2, 1987, TESTIMONY

During the June 2 textile hearing, before the Subcommittee on Trade of the House Ways and Means Committee, representatives of the Office of Technology Assessment (OTA) made a number of statements claiming that:

(1) they had obtained the Commerce Department's endorsement of the methodology used by the American Textile Manufacturers Institute (ATMI) to develop penetration ratios for U.S. textile and apparel markets;

(2) the Commerce Department had not developed its own figures on overall import penetration of U.S. textile and apparel markets in terms of square yards; and

(3) the Commerce Department has supported the denial of charges that ATMI's approach involves double counting.

These claims are all erroneous. The following is our rebuttal to each of the three claims.

(1) The Department of Commerce has not endorsed ATMI's import penetration ratios and never agreed that they should be used in a government study purporting to show the best way to measure import market shares. We have stated only that we understand the rationale as to why ATMI, from its point of view, attempts to portray the impact on the textile industry of all yarn, fabric and apparel imports. We have stated that the ATMI's figures do not represent valid import penetration ratios for textile finished goods markets.

Our staff has participated in meetings with ATMI staff and discussed the sources of data and different approaches to measuring the impact of imports on U.S. markets. For this reason plus the fact that some of the raw data used by ATMI includes official Commerce statistics, ATMI's reports have stated, "the information contained herein was derived from a number of sources and has been developed and/or reviewed and critiqued by several organizations," including the Department of Commerce. We have no objection to that statement itself, but it would be highly misleading to conclude that we endorse all of the specific ways in which the data has been manipulated and presented by ATMI.

We recall that OTA officials asked Commerce officials a few questions by phone in the early stages of preparing their Special Report, "The U.S. Textile and Apparel Industry; A Revolution in Progress." However, they never formally or officially asked Commerce for comments on the content of the report prior to its publication. They did not inform Commerce of their intention to base its presentation of import market shares on ATMI's approach.

(2) It is not true that ATMI's figures are the only ones available measuring overall import penetration of U.S. textile and apparel markets on a quantity basis. The Commerce Department's Office of Textiles and Apparel (OTEXA) has provided such ratios in response to several requests over the past several years. An example of data available from OTEXA at the time of the OTA study's preparation was the August 1985 report, "Current Status and Trends in the U.S. Textile and Apparel Industries." This report included tables such as Exhibit D showing an imports to consumption ratio in 1984 of 33 percent for the U.S. apparel market measured in square yard equivalents.

(3) Concerning the double-counting issue, we have pointed out that in ATMI's approach, imported yarn and fabric is counted twice, once as imports and once as components of domestic finished goods production. A more detailed explanation of the differences between the Commerce and ATMI import market share figures has been transmitted to the Subcommittee separately.

Chairman GIBBONS. First, gentlemen, we thank you for coming. We are sorry that we are running a little late today, but we will hear you in full. We are sorry you had to wait on that last set of witnesses. Go right ahead. Steve, you are first.

STATEMENT OF HON. STEPHEN L. NEAL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. NEAL. Thank you, Mr. Chairman. Thank you for the opportunity to testify today. Though I am a strong supporter of the goal of free trade, I also strongly support H.R. 1154, the Textile and Apparel Trade Act, and I would like to try to explain why.

It seems clear to me, Mr. Chairman, that the U.S. textile industry is bearing the brunt of unfair trade practices. Unbalanced trade agreements, passive U.S. enforcement of bilateral arrangements, artificial barriers to free trade are ravaging our industry and eliminating American jobs.

The U.S. textile industry work force has declined from 848,000 workers in 1980 to 727,000 workers today. Combined textile, apparel, and related industry job losses since 1980 total more than 300,000. Import penetration of the U.S. market has risen during that period from about 28 percent to over 50 percent, and the annual trade deficit in textiles and apparel has passed the $18 billion mark. In my State of North Carolina alone, Mr. Chairman, more than 45,000 textile industry employees have lost their jobs since 1980. This alarming trend is not the fault of the American textile industry. Indeed, our industry is one of the most productive in the world. It reinvests 80 to 85 percent of its retained earnings and leads the world in modernization. But even with recent strides toward greater productivity, employment figures and market share continue to decline.

To a large extent, Mr. Chairman, the culprit is ourselves. Our Government has refused to enforce the bilateral textile and apparel agreements negotiated during the late 1970's.

I have often thought, Mr. Chairman, that if these agreements had simply been enforced, there would be no need, nor desire, for this legislation. And while imports flood into the United States, many foreign nations continue to erect barriers to American exports, creating a double disadvantage for American textile workers.

Mr. Chairman, as I have said, my preference is always for free trade, but the fact is that trade, in textiles and apparel is managed throughout much of the world. Trade in textiles, and apparel is simply, and in fact, not free, and our failure to recognize this reality and to respond appropriately has been very costly to our country.

For these reasons, I strongly support H.R. 1154, and respectfully urge the Subcommittee to report the bill.

Chairman GIBBONS. Thanks, Steve. Alex.

STATEMENT OF HON. J. ALEX McMILLAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. McMILLAN. Thank you, Mr. Chairman. I have previously submitted written testimony on May 7, which I would like to request be included in the record.

Chairman GIBBONS. Yes, sir. We will include it.

Mr. McMILLAN. Thank you, sir. The textile and apparel industry, I think as we have been trying to make the case, is trapped in a struggle that could very well result in, if not its complete demise, its severe restriction in the domestic market, and I would submit that textiles, like food, agriculture, shelter, steel, is a strategically fundamental industry in the United States.

On the one hand, we have an industry that has invested over $15 billion in the past 10 years in new equipment, which has established the U.S. industry as among the most modern in the world in textiles.

This investment has propelled the textile industry to the fastest rate of productivity increase of virtually any American industry from 1975 to 1985, at a rate of 5.6 percent per year, versus overall productivity growth of 2.4 percent. And the apparel industry, which is perhaps even more impacted, has achieved productivity growth of 2.7 percent in the same time span, against 2.4 percent over the past decade.

It occurred to me, in hearing some of the prior testimony, or the questions, that one thing that we often fail to consider in looking at productivity gains is the fact that they can also be increased by the demise of less-productive components of the industry that have been impacted by imports, and I would suspect that that is the case here.

At the same time, however, we have witnessed a doubling of textile and apparel imports into this country. According to the figures that I have been looking at, roughly 33 percent of the U.S. textile market, and 48 percent of the U.S. apparel market was imported in 1985.

And how can it be that two of the most modern and productive industries relative to the rest of the world cannot stem the tide of foreign imports?

Foreign subsidy and targeting, in my judgment, as Mr. Neal previously testified, are existing in a protected world market, worldwide. But another reason, it is argued, was the over-valuation of the U.S. dollar in the period from 1980 to 1985.

It is true that the strong dollar hurt the textile and apparel industry, just as it hurt most other U.S. industries. However, a great myth that still exists in the debate over the textile and apparel industry's future, is the notion that the revaluation of the dollar is somehow going to overcome the subsidies, targeting, violation of multifiber agreements and low wage rates that the American textile and apparel industry faces in competing in a world market.

I think this is misguided thinking and it would be dangerous to rely upon exchange rates as the solution to the problem. Even when the benefits of the so-called "J Curve" economic theory takes place, hopefully, in the near term, the recent fall of the dollar's value will only provide modest relief to the U.S. industry because the bulk of the problem lies not with Japan, and West Germany, where we have made the greatest progress in exchange rates, but with countries like South Korea, Hong Kong, and Taiwan, whose currencies are tied to the value of the dollar.

And I might include the People's Republic of China, while not tied to the value of the dollar, presents the same problem.

The U.S. dollar has remained virtually firm against these currencies while falling over 45 percent, for example, against the Japanese yen since March of 1985.

These four Asian countries have currencies that have not significantly strengthened against the dollar, and they account for close to 60 percent of our apparel imports.

Only in most recent months have any of these currencies begun to show any sign of declining in value relative to the dollar, and this resulted from pressure by the Department of the Treasury to negotiate the value of their currencies downward.

In the first quarter of 1987, according to figures that I have, textile and apparel imports increased 4.4 percent over the comparable period of 1986 despite the change in exchange rates.

The Office of Technology Assessment, from whom all have previously heard extensive testimony:

> The recent fall in the dollar's value with respect to the currencies of industrial nations will tend to provide only modest relief. Much of the growth in U.S. imports has come from nations like Korea and Taiwan, whose currencies are either tied to the dollar, or have not changed significantly with respect to the dollar.

Speaking philosophically, I believe we should heed the words of Thomas Jefferson, one of the most notable proponents of the then current writings of free-trade advocate Adam Smith.

In a report to Congress in 1790 on the cod and whale industry he wrote:

> Admitting their—meaning European nations with whom he had been negotiating—right of keeping their markets to themselves, ours cannot be denied of keeping our carrying trade to ourselves, and if there be anything unfriendly in this, it is the first example.

I believe Thomas Jefferson would strongly endorse the responsible actions proposed in H.R. 1154 as sound and prudent national public policy, because he would have realized that we cannot continue to operate in the fantasy world that the United States can regain its prominence in the world markets by simply turning on and off the exchange rate switch, when there are countries that have systematically focused their governmental, business and financial efforts and resources to dominate relatively open U.S. markets, such as textile and apparel.

We are sacrificing American jobs, industry, and national security while we are trying to achieve ideological purity and free trade.

H.R. 1154 is a reasoned, carefully constructed effort to overcome the deficiencies of the multifiber agreements, and the doubtful benefits to rectify the trade imbalance in textiles through dollar devaluation.

H.R. 1154 calls for what we would argue is a GATT-compatible global quota system that will not violate existing bilateral and multilateral agreements.

This bill really gets to the heart of the trade issue in my opinion. For too long, the Untied States has negotiated trade agreements with our trading partners only to let them lapse into irrelevancy by failing to live up to the "letter and spirit" of those agreements.

What we are saying in H.R. 1154 is this: That we, as a nation, are prepared to put our own national interest on a par, on a par, with the interests of our trading partners.

And the irony of those opposed to H.R. 1154 is that, implicitly, their actions condone the restrictive and subsidizing behavior of some of our trading partners.

If the United States had been more active in assuring the strict enforcement of our existing trade agreements in the past, we would not have this problem or this bill before us today.

I submit that H.R. 1154 is corrective surgery we must perform before the U.S. textile industry is dead. Thank you, sir.

[The statement of Mr. McMillan follows:]

STATEMENT OF CONGRESSMAN ALEX MCMILLAN
BEFORE THE SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
TUESDAY, JUNE 2, 1987

The textile and apparel industry is trapped in a struggle that eventually could result in the demise of the U. S. manufacturing base. Textiles, like food and shelter, are strategically fundamental.

On the one hand, we have an industry that has invested over $15 billion in the past 10 years in new equipment which has established the U.S. textile industry as the most modern textile industry in the world.

This investment has propelled the textile industry to the fastest rate of productivity increase of all American industry from 1975-1985, 5.6 % per year versus the overall productivity growth of 2.4%. The apparel industry has also exceeded the average productivity growth of American industry by 2.7% to 2.4% over the same decade.

At the same time, however, we have witnessed a doubling of texile and apparel imports into this country, In 1985, roughly 33% of the U. S. textile market and 48% of the U. S. apparel market was imported. How can it be that two of the most modern and productive industries in the world can not stem the tide of foreign imports. Foreign subsidy and targeting are a major part of the answer.

Another reason, it is argued, was was the over-valuation of the U. S. dollar for the 1980-1985 period. It is true that the strong dollar hurt the textile and apparel industry just as it hurt most other U. S. industries. However, a great myth that still exists in the debate over the textile and apparel industry's future is the notion that the re-valuation of the dollar is somehow going to overcome the subsidies targeting violation of multifiber agreements and low wages the American textile and apparel industry faces in the world market. This is misguided thinking and a dangerous public policy to pursue.

Even when the benefits of the so-called "J-curve" takes place in the near term, the recent fall of the dollar's value will only provide modest relief to the U. S. industry because the bulk of our problem lies not with Japan and West Germany, but with imports from Korea, Hong Kong and Taiwan whose currencies are tied to the value of our dollar, and the People's Republic of China. The U. S. dollar has remained firm against these currencies while falling over 45% against the Japanese yen since March, 1985. These four Asian countries, have currencies that have not significantly strengthened against dollar, and they account for close to 60% of our apparel imports.

Only in most recent months have any of these currencies begun to show any sign of declining in value relative to the dollar and this resulted from pressure by the Department of Treasury to negotiate the value of their currencies downward. In the first quarter of 1987, textile and apparel imports increased 4.4% despite the change in exchange rates. The office of

Technology Assessment, (OTA) stated the problem well in its special report, "The U. S. Textile and Apparel Industry: A Revolution in Progress" of April, 1987.

"The recent fall in the dollar's value with respect to the currenices of industrial notions will tend to provide only modest relief; much of the growth in U. S. imports has come from nations like Korea and Taiwan, whose currencies are either tied to the dollar or have not changed significantly with respect to the dollar."

I believe we should heed the words of Thomas Jefferson, one of the most notable proponents of the ten-current writings of free trade advocate, Adam Smith. In a report to Congress in 1790 on the cod and whale industry, he wrote, "Admitting their (European nations) right of keeping their markets to themselves, ours cannot be denied of keeping our carrying trade to ourselves. And if there be anything unfriendly in this, it is the first example."

I believe Thomas Jefferson would strongly endorse the responsible actions proposed in HR 1154 as sound and prudent national public policy because he would have realized that we cannot continue to operate in the fantasy world that the United States can regain its prominence in the world markets by simply turning on and off the exchange rate switch when there are countries that have systematically focused their governmental, business and financial efforts to dominate relatively open U. S. markets such as the textile and apparel industry. We are sacrificing American ~~American~~ jobs, industry and national security while we are trying to achieve ideological purity on free trade.

HR 1154, the Textile and Apparel Trade Act of 1987, is a reasoned, carefully constructed effort to overcome the deficiencies of the MFA and the doubtful benefits to rectify the trade imbalance in textiles through dollar devaluation. HR 1154 calls for a GATT-compatible global quota system that will not violate existing bilateral and multilateral agreements.

This bill really gets at the heart of the trade issue in my opinion. For too long, the United States has negotiated trade agreements with our trading partners only to let them lapse into irrelevancy by failing to live up to the letter and spirit of those agreements What we are saying in H. R. 1154 is this: We, as a nation, are prepared to put our own national interests on a par with the interests of our trading partners.

The irony of those opposed to HR 1154 is that, implicitly, their actions condone the restrictive and subsidizing behavior of some of our trading partners. If the United States had been more active in assuring the strict enforcement of our existing trade agreements in the past, we would not have this problem or this bill before us today.

HR 1154 is corrective surgery we must perform before the U.S. textile industry is dead.

Chairman GIBBONS. All right. Thank you. And now, Mr. Lancaster.

STATEMENT OF HON. H. MARTIN LANCASTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. LANCASTER. Mr. Chairman, I am grateful to you and the subcommittee for allowing us to testify today. I have submitted a statement, the full text of which I would request be inserted in the record, but I will limit my remarks to two brief points.

As Mr. Neal indicated, it has been argued that strict enforcement of existing law would solve many of the problems facing the textile and apparel industry, and that is true.

However, we cannot rely on the current Administration to do much more than tinker with the value of the dollar and "talk tough" on trade.

One example of this was when the Reagan administration opposed legislation before Congress to require more strict enforcement of the multifiber arrangement.

An effective adminstration of the MFA is one reason given for the unprecedented surges in imports and for the resultant harm to the domestic textile and apparel industry.

Despite the MFA, which set a 6 percent annual growth rate for imports, imports rose 30 percent in 1983, and 32 percent in 1984, before falling to 7 percent in 1985. However, multifiber imports rose to 17 percent again in 1987.

If we cannot rely on the President to enforce our laws, then we need to have laws with intent so clear that it cannot be abridged. The Textile and Apparel Trade Act of 1987 is compatible with the General Agreement on Tariffs and Trade. Key GATT provisions that are met by H.R. 1154 are: that serious injury has been done to domestic producers; that product quotas will be global and will not discriminate among nations; and that by passing H.R. 1154, Congress will, as an appropriate governmental authority, officially declare that America's textile and apparel industries have been seriously injured by imports.

I would urge the Subcommittee to give its stamp of approval to H.R. 1154, and urge support of it. Thank you.

[The statement of Mr. Lancaster follows:]

TESTIMONY BY HONORABLE H. MARTIN LANCASTER
BEFORE THE WAYS AND MEANS SUBCOMMITTEE ON TRADE
JUNE 2, 1987

I thank the honorable Subcommittee Chairman for this opportunity to testify in favor of H.R. 1154, the Textile and Apparel Trade Act of 1987.

American textile and apparel industries and their two million workers are struggling to survive and desperately need this legislation. Since 1980 the textile and apparel trade deficit has set a new record each successive year as imports have more than doubled. Wool imports have doubled since 1980, man-made fiber imports more than doubled since 1980 and cotton textile imports represent a $1 billion loss to U.S. raw cotton producers each year.

Unless we pass H.R. 1154 there may be no textile and apparel industry or workers to protect. According to U.S. Department of Commerce measure, each $1 billion in trade equals 25,000 jobs. Our $170 billion deficit costs us 4.25 million jobs, and about a thousand plants have shut down because of imported foreign apparel and apparel fabrics.

Despite these hardships the U.S. textile and apparel manufacturers are working hard to stay competitive and plan for the future. Our textile industry leads the world in investment in modernization by reinvesting 80 to 85 percent of its retained cash flow. About 70 percent of the industry's facilities have been installed within the last 10 years and it spends an average of $1.7 billion each year on new equipment. The U.S. textile industry is the most modern and productive in the world and has achieved the highest productivity levels anywhere. This leads me to believe that it can make a strong comeback with the assistance provided in the Textile and Apparel Trade Act of 1987.

We need to keep these manufacturing jobs. They pay more than service sector jobs and provide the economic base that can create service sector jobs.

It has been argued that strict enforcement of existing laws would solve many of the problems facing the textile and apparel industry, and that is true. However we cannot rely on the current Administration to do much more than tinker with the value of the dollar and talk tough on trade. One example of this was when the Reagan Administration opposed legislation before Congress to require more strict enforcement of the Multi-Fiber Arrangement (MFA). Ineffective administration of the MFA is one reason given for the unprecedented surges in imports and for the resultant harm to the domestic textile and apparel industry. Despite the MFA, which set a 6 percent annual growth rate for imports, imports rose 30 percent in 1983 and 32 percent in 1984, before falling to 7 percent in 1985; however, multi-fiber imports rose to 17 percent again in 1986. If we cannot rely on the President to enforce our laws, then we need to have laws with intent so clear that it cannot be abridged.

The Textile and Apparel Trade Act of 1987 is compatible with the General Agreement on Tariffs and Trade (GATT). Key GATT provisions that are met by H.R. 1154 are: that serious injury has been done to domestic producers, that product quotas will be global and will not discriminate among nations, and that by passing H.R. 1154, Congress will, as an appropriate government authority, officially declare that America's textile, apparel and footwear industries have been seriously "injured" by imports.

I further support the Textile and Apparel Trade Act of 1987 because with it import quotas are established on each category of textiles and textile products from all sources and each quota is based on the level of imports in that category for the year 1986; therefore, there is no rollback of trade. According to this bill the Secretary of Commerce will set regulations to implement the quotas, including rules to require reasonable spacing of the imports during each year, and each quota will grow by one percent each year in conjunction with the long-term growth trend of the domestic market. The President is authorized to negotiate reduction in U.S. textile and apparel tariffs as compensation for those countries affected under H.R. 1154, and he is authorized to reduce duties on footwear covered by the bill, up to 10 percent to be staged equally over five years. Also, the operation of the act will be reviewed by the Secretary of Commerce after 10 years and the findings reported to the Congress.

I urge my colleagues to support the Textile and Apparel Trade Act of 1987 as a big step toward stopping widespread trade fraud and as positive legislation toward saving one of the basic manufacturing industries in America and recovering a high standard of living for citizens in my area and across the nation.

#

Chairman GIBBONS. Thank you. And I thank you, gentlemen, for coming.

Let us talk about the administration of H.R. 1154. If it passes, and it becomes law, everybody is limited to a 1 percent growth forever. How do you envision this law would be administered? Who is going to allocate the quotas? Maybe we can take a couple of minutes on this before we go answer that call to vote.

Mr. NEAL. Mr. Chairman, if I may take a stab at it.

Chairman GIBBONS. I ask the question because there is nothing in the bill about how the quota system would be administered, who is going to pass out the import tickets.

Mr. NEAL. If you will recall, in the earlier version of the bill, there were several complaints voiced by a number of opponents of the bill. And one of the complaints was that it was too stringent, too binding on the administration. So this new the bill was designed to give the administration a good deal of latitude in this area.

It is contemplated, as I understand the bill, that the import levels will be determined through bilateral negotiations, to be conducted by the administration, which seems to me to be completely workable. We arranged bilaterals during the period of the 1970s, and I do not think the problem there was in negotiating the bilaterals or even in knowing what was done. It was just a lack of desire to enforce them. They are not self-enforcing as I am sure you know.

Mr. MCMILLAN. Mr. Chairman, I would like to make a comment on that. I think the point has been made that textiles being a fundamental industry worldwide, has been for a long time subject to trade agreements which tend to settle down on a quota approach to the solution to the problem. We have always had a challenge of administering those agreements. And I think part of our argument is that in the past they perhaps have not been administered to the degree that they should have.

We are suggesting, and I think that the administration by the agreements that it has already entered into, has committed itself of enforcement of negotiated quotas. So I do not think this bill is a radical departure from that principle of trying to deal with what is, worldwide, essentially a protected industry through negotiation.

Chairman GIBBONS. Mr. Crane, do you have any questions for these gentlemen?

Mr. CRANE. Just a couple. What is your unemployment rate in North Carolina?

Mr. MCMILLAN. Unemployment rate in the state probably is about 5.2 percent.

Mr. CRANE. That is significantly below the national average. The reason I ask that is we a disturbing report last year when we were considering the Textile Protection Act. This report indicated that to save 71,000 jobs in the industry, it would be at the expense of 62,000 jobs in retailing and transportation; moreover it would hit some of our Rust Belt States particularly hard, and those States already are well above the national average in unemployment rates.

Morover, those job loss estimates were done before we could anticipate the possibility of retaliation. The easiest target to retaliate against is agricultural exports, which would be a double whack in the State of Illinois and some of our other Midwestern States where the unemployment figures, at least for 1986, were still well above 8 percent.

In fact, if you look at the unemployment rates in the various textile States, with the exception of South Carolina, their employment situation is improving, according to the Bureau of Labor Statistics. In textile jobs in the period February 1986 to 1987, the percentage increase in Alabama was 3.2 percent; Florida, 4 percent; Georgia, 2.9; North Carolina, 2.9; Tennessee, 4.4; Virginia, 6.8. South Carolina lost 300 jobs, Kentucky lost 200 jobs.

But overall, the employment rate is up on average in those States, 2.6 percent in the textile industry. I am curious as to why the industry has a sense of urgency, more so this year than last year, when in the first quarter of this year it has already added another 20,000 jobs and there seems to be a big turnaround taking place?

Mr. McMillan. I think that the overall unemployment statistics can mask the real nature of the problem. Just take my own congressional district. Ten years ago we had close to 20,000 direct textile jobs; today we have less than 9,000. During the same period of time, IBM has come in and created a new plant with 6,000 employees. Probably very few of those textile workers are working in that IBM plant.

It does not do any good, even though the statistics look good, to the textile worker located 20 miles away who is not particularly trained to work for IBM, whose plant has been closed down. So the problem has got to be viewed in a microdimension rather than in the overall unemployment statistics that can mask the nature of the problem. So we are thankful for the good growth rate otherwise, but——

Mr. Crane. But looking at the State of North Carolina, for example, according to these latest figures, you have added 6,100 new jobs in the textile industry just in this past year. And since these figures only go from February 1986–February 1987 they do not take into consideration the big surge in employment in the first quarter of this year.

So it suggests that a lot of that is a relocation from one site to another.

I can certainly understand how that might impact on a given congressional district. For example, we had a case last year of a textile plant in South Carolina where the plant was antiquated and they modernized. Unfortunately it was a small community, almost solely dependent on that one employer. The employer, frankly, wanted to locate near an interstate which was 60 miles away. That made it difficult for the folks in that town to contemplate commuting to work, but it made him profitable.

On the other hand, he was using unfair imports an an excuse, as a way of rationalizing his own departure from that small town where he had shut down an antiquated plant. I think that that kind of transition is certainly something that might be anticipated as you go through a modernization process where being on main transportation lines is so important.

I do not mean to minimize the injury to the people in your district with that kind of relocation, but I think we are all going through some of that.

Mr. **McMillan**. I think you make a good point, and I am certainly not going to defend the manufacturer who used that to mask his other intentions. And I think the pressure on the textile industry to increase its capital investment and improve productivity has been healthy. I do not disagree with that.

Mr. **Neal**. May I just say, of course I am delighted we have had some increase recently. I had not heard that figure before or seen it. I would point out though that since 1980 we have lost 45,000 textile jobs; 45,000 people have lost their jobs.

Mr. **Crane**. If you will yield——

Chairman **Gibbons**. I am going to interrupt here and say, we have got to go vote.

Mr. **Crane**. Let me just interject one other point though. If you look at the total employment figures in the industry, they went down in 1985. They went down again in 1986. And the employment rates are higher today than they have been since 1985. So it suggests that there is some improvement.

We have got 6 minutes. I just got the notice, so we had better run. Thank you for testifying.

Chairman **Gibbons**. As soon as we come back we will take up Mr. Frank's testimony and Mr. Blaz' testimony. Thank you very much for coming, we appreciate your help.

[Recess.]

Chairman **Gibbons**. Mr. Blaz, we are going to take your testimony while we are waiting for Mr. Frank. We welcome you, as we reconvene, and your entire statement will be placed in the record. You may proceed as you wish, sir.

STATEMENT OF HON. BEN BLAZ, A DELEGATE IN CONGRESS FROM GUAM

Mr. **Blaz**. Thank you. Thank you very much, Mr. Chairman. I do have a written testimony which I have submitted and I appreciate your including it in the record. Let me just make a few additional remarks.

Quite frankly, Mr. Chairman, it is getting almost embarrassing and humiliating for me to come here every year and ask that my territory be——

Chairman **Gibbons**. We are glad to have you here.

Mr. **Blaz**. I am glad to be here, but as an American retired soldier and as a colleague of yours, for me the sole person to come and say, please do not include Guam as a foreign country is downright humiliating sometimes. But nevertheless, here we are.

And I try to make the point now, Mr. Chairman, simply because I am here to oppose the inclusion of the territories, and specifically Guam, under H.R. 1154. If it were included it would compel Guam and the other territories to compete in a global market, global quotas with the other real foreign countries, such as Taiwan and Korea and Japan. And if this were to be done, then Guam's very modest garment industry would simply just cease to exist.

I want to mention once again that the garment industry on Guam is American-owned. It pays American wages, and it employs American citizens. It is not like any other garment industry in a foreign country.

You recall, Mr. Chairman, that a few years ago headnote 3A was specifically written to give the territories of the United States, on the fringe of the empire, a fighting chance—just a fighting chance at economic self-sufficiency. If this thing were—if Guam were not exempted, then headnote 3A in effect would be revoked, and the garment industry will join a watchmaker industry that is now defunct on Guam, an oil refinery that started and was very good and now is gone, an airline industry that started and now is gone, and then other things that have started on Guam and simply cannot seem to survive.

Now I do not want to press the point too much, but I just want to, for the sake of the record, to recall that Guam as an American territory is not like any other congressional district. It might as well be a minirepublic. We have immigration problems, we have fisheries problems, we have language problems, Mr. Chairman. And we have immigration problems of a large number of people coming in from around the world simply because they think that Guam is a special place.

It is a very strategic place, but the military only thinks of it militarily. But it is also very strategic politically simply because it is in the middle of the Pacific Basin with all those emerging entities and Micronesia around us. And it is a very strategic place economically because it is a bridge to Asia where all the activity is going on.

But historically, Guam also for the last 50 years has been a national bastion. In World War II we supported—we were captured as a matter of fact, you may recall.

Chairman GIBBONS. I remember.

Mr. BLAZ. And not only that, in the Korean war and in the Vietnam war, they were launched from Guam. So we have felt the impact of the war. And all of this turmoil, we finally came to the realization that sooner or later we were going to have to do something with private enterprise. We have got to do it in the private sector.

The only thing that has not been touched by Federal Government in one way or another is the sun, the sand and the sea. Nobody can toy with that. We have got plenty of that. And as a result of that, it is the only industry we have. And of all people, the Japanese are coming now in great numbers. So what I am here to tell you, sir, is that we really need help.

Now finally, my point is this. Guam, unlike any other congressional district also, incredibly, has an opportunity if it chooses to take advantage of it, to change its political status with the mother country. Unbelievably, we have that chance. I am leading the organization, I am leading the movement to make us a commonwealth, a closer tie with the United States. Generally, the people of Guam favor that.

Unfortunately, the defunct status of many of our industries have fired a lot of people with this so-called nationalistic spirit. They want to be associated with someone else. Sir, after 82 years under this flag, it is incomprehensible that this territory of ours would ally itself with someone else. And it would be terribly embarrassing for the United States.

So my purpose here is to ask you to take a look at the statement that I have submitted, sir. I have an amendment to this bill that, if they want to list us as a foreign country, let them list us as a foreign country. But the amendment proposes that we try to retain the attributes, the good points of headnote 3A so we can continue to have this very modest industry, 300 people that are involved in this thing here. For Guam, that really is big because it is the only industry we have got.

And if we lose that also, then all these potential investors that come from the mainland United States to invest on Guam will just be sent away saying that you cannot depend on Guam because every time you get something started on Guam, somehow sooner or later it goes away. I make a plea——

Chairman GIBBONS. I think you have performed a very useful service because I had forgotten—what you are telling us is that this bill treats Guam as a foreign country. And what you want to do is to have this bill amended so that it treats Guam as an integral part of the United States.

Mr. BLAZ. No, sir, as a territory. It has a territorial status which makes it able to enjoy the provisions of headnote 3A, because we have no resources whatsoever with which to start anything except tourism.

Chairman GIBBONS. And your argument is that in Guam the wages are the same.

Mr. BLAZ. Yes, sir. On Guam, we would be——

Chairman GIBBONS. You are under the minimum wage law?

Mr. BLAZ. Everybody that we employ is American. The wages—we meet American standards. When you have an organization that is competing in the world market against foreign countries and you are required to observe American safety standards, the EPA, American wages, American citizens and all the good things that American citizens want, you simply are out of competition. And I just do not think it is fair. It is grossly unfair for the territory to be put in that position.

And I think if you look at the record of the territory, like I say, I wish it were just a marvelous district in Indiana. I wish it were, but it ain't. It is out there by itself, and every war we have fought has been fought over Guam. And doggone it, I just come here as a retired marine, as a matter of fact, to say to you all, hey, at the twilight of my life, why do you not treat me as an American citizen and we will get along just fine.

[The statement follows:]

TESTIMONY OF
CONGRESSMAN BEN BLAZ
GUAM

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:
I SPEAK TODAY IN OPPOSITION TO THE INCLUSION OF GUAM AND THE OTHER INSULAR POSSESSIONS IN H.R. 1154 AS "COUNTRIES". THIS BILL PLACES THE U.S. TERRITORIES IN THE SAME CATEGORY AS FOREIGN COUNTRIES FOR THE PURPOSE OF IMPOSING GLOBAL QUOTAS ON TEXTILES AND APPAREL. WE IN GUAM ARE AMERICANS. WE HAVE LOYALLY FOUGHT FOR THE CAUSE OF DEMOCRACY AND FREE ENTERPRISE. WE SUFFERED THE OCCUPATION BY JAPANESE IN WORLD WAR II AND NEVER BROKE FAITH WITH OUR MOTHER COUNTRY. OUR SONS FOUGHT IN KOREA AND VIETNAM WITH DISTINCTION. YET, THIS BILL TELLS US OUR FAITH IN THE UNITED STATES IS NOT RECIPROCATED. WE ASK NO MORE OF OUR FEDERAL GOVERNMENT THAN TO BE TREATED AS OTHER AMERICANS AND AFFORDED THE OPPORTUNITY TO DEVELOP OUR MODEST APPAREL INDUSTRY AND CREATE JOBS FOR GUAMANIANS. THERE IS NO JUSTICE IN DENYING JOBS TO VETERANS AND OTHER LOYAL AMERICANS IN GUAM.

THIS BILL WILL STRIKE A BLOW AGAINST PRIVATE ENTERPRISE IN GUAM BOTH NOW AND IN THE FUTURE. INCREDIBLY, THE IMMEDIATE EFFECT OF THIS BILL WILL BE TO FORCE GUAM TO COMPETE WITH FOREIGN COUNTRIES FOR A SHARE OF LIMITED GLOBAL QUOTAS. AN AS YET UNNAMED FEDERAL AGENCY WILL APPORTION THE GLOBAL QUOTAS AMONG THE COMPETING FOREIGN COUNTRIES AND THE AMERICAN TERRITORIES. THIS FRAMEWORK AFFORDS NO CERTAINTY THAT THE ADMINISTRATION WILL GRANT GUAM THE PRIVILEGE TO SHIP THE SAME AMOUNT OF SWEATERS TO THE MAINLAND THAT IT CURRENTLY ENJOYS. AT PRESENT, THE TEXTILES CONCERN IN GUAM SHIPS 140,000 DOZEN SWEATERS ANNUALLY AND EMPLOYS OVER THREE HUNDRED U.S. CITIZENS AND RESIDENT ALIENS IN GUAM. WHAT IS CERTAIN, HOWEVER, IS THAT GUAM WILL NOT BE ABLE TO MATCH THE LOBBYING POWER OF TAIWAN AND HONG KONG IN THE GRAB FOR SHARES OF THE QUOTAS. MANY YEARS OF AMERICAN INVESTMENT IN THE AMERICAN TERRITORY OF GUAM WILL NO DOUBT BE LOST IN THE ENSUING FRAY. THE LOSS OF THE RIGHT TO SHIP SWEATERS FROM GUAM TO THE UNITED STATES FREE OF QUOTAS WILL FORCE HUNDREDS OF FORMER TEXTILE WORKERS AND THEIR DEPENDENTS ON TO THE PUBLIC DOLE. IN THIS ERA OF RISING FEDERAL DEBT, TAXPAYERS IN YOUR DISTRICT AS WELL AS MINE CAN ILL-AFFORD TO SHOULDER THIS HEAVY BURDEN. THE LOSS OF TAX REVENUE WILL ALSO HANDICAP THE GOVERNMENT OF GUAM WHICH IS ALREADY IN SERIOUS FINANCIAL STRAITS.

THE SECONDARY AND MORE DRASTIC EFFECT OF THIS BILL WILL BE TO SOUR POTENTIAL INVESTORS ON THE PROSPECTS OF FURTHER INVESTMENT IN GUAM. CAPITAL INVESTMENT IS THE SEED FROM WHICH ALL PRIVATE ENTERPRISE GROWS. GUAM CANNOT DEVELOP ITS PRIVATE INDUSTRY WITHOUT IT. YET, THIS BILL WILL TELL INVESTORS TO AVOID INVESTMENT IN THE TERRITORIES WHERE THE UNITED STATES CONGRESS CUTS DOWN NEW BUSINESSES ONCE THEY HAVE TAKEN ROOT. THE BILL WILL ADD THE TEXTILE INDUSTRY TO THE LIST OF GUAMANIAN INDUSTRIES WHICH HAVE BEEN HAMSTRUNG TO DESTROYED BY FEDERAL FIAT: WATCHMAKERS, AN OIL REFINERY, AUTO DEALERS AND A LOCAL AIRLINE HAVE ALL BEEN RUN OUT OF BUSINESS AS THE RESULT OF FEDERAL POLICIES. THIS PATTERN SHOULD NOT BE ALLOWED TO CONTINUE. THIS HOUSE LONG AGO RECOGNIZED THE UNIQUE AND PECULIAR PROBLEMS OF THE TERRITORIES IN ATTEMPTING TO COMPETE WITH LOW-WAGE, UNREGULATED FOREIGN INDUSTRY. GENERAL HEADNOTE 3(a) TO THE TARIFF SCHEDULES OF THE UNITED STATES HAS BEEN RECOGNIZED AS AN EXPRESSION OF CONGRESSIONAL CONCERN FOR THE WELL-BEING OF PRIVATE ENTERPRISE IN THE TERRITORIES. H.R. 1154 REVOKES THIS POLICY AND TREATS THE TERRITORIES AS IF THEY WERE FOREIGN COUNTRIES FOR TRADE PURPOSES. THE FLAG TERRITORIES WILL BE THRUST ONCE AGAIN INTO THE IMPOSSIBLE POSITION OF COMPETING WITH FOREIGN COUNTRIES FOR THE AMERICAN IMPORT MARKET WHILE STILL BEING SUBJECT TO FEDERAL WAGE, SAFETY AND POLLUTION STANDARDS. PRIVATE INDUSTRY IN THE TERRITORIES WILL SUFFER. THE INEVITABLE RESULT WILL BE FURTHER DEPEDENCE ON FEDERAL SUBSIDIES TO SUPPORT GUAM'S ECONOMY AND INCREASING DISENCHANTMENT AMONG GUAMANIANS WITH WASHINTON'S INSENSITIVE TRADE POLICY.

THERE IS ALREADY A SMALL BUT GROWING COMMUNITY OF YOUNG, EDUCATED GUAMANIANS WHO CHALLENGE THE NOTION THAT POLITICAL UNION WITH THE UNITED STATES IS DESIRABLE. THIS BILL WILL SUPPLY THAT VOCAL

GROUP WITH MORE FUEL FOR THEIR FIRE.

I WILL INTRODUCE LEGISLATION IN CONGRESS TO PROPOSE A NEW POLITICAL STATUS, THAT OF A COMMONWEALTH, FOR THE TERRITORY. A NEW POLITICAL ORDER WILL BE SOUGHT WITH THE UNITED STATES BASED ON THE PREMISE OF MUTUAL RESPECT AND EQUALITY. WE ARE LAYING THE FOUNDATION OF THAT RELATIONSHIP TODAY. UNFORTUNATELY, H.R. 1154 INDICATES THAT THE UNITED STATES INTENDS TO TREAT GUAM IN THE FUTURE AS A FOREIGN COUNTRY RATHER THAN A MEMBER OF THIS COUNTRY'S POLITICAL FAMILY.

THIS CHANGE IN THE COURSE OF FEDERAL-TERRITORIAL RELATIONS WILL HOLD ENORMOUS SIGNIFICANCE FOR THE FUTURE STRATEGIC PRESENCE OF THE UNITED STATES IN THE PACIFIC REGION. THE SOVIETS ARE DETERMINED TO EXPAND THEIR SPHERE OF INFLUENCE IN THE PACIFIC. THEY ARE ACTIVELY COURTING PACIFIC ISLAND NATIONS WITH TUNA DEALS, MONETARY AID AND EDUCATION AND ARE TREATING THESE NATIONS WITH THE RESPECT THAT THEIR COUNTRIES' STRATEGIC LOCATIONS MERIT. WE NOW KNOW THAT THE SOVIETS' OFFERS HAVE MET WITH SOME SUCCESS. GIVEN SOVIET EXPANSIONISM, POLITICAL INSTABILITY IN THE PHILIPPINES AND GROWING ANTI-NUCLEAR SENTIMENT IN THE REGION THE UNITED STATES MUST GIVE CAREFUL CONSIDERATION TO EVERY DECISION WHICH AFFECTS THIS AREA. IN THIS REGARD H.R. 1154 DOES NOT PASS MUSTER.

GUAM IS AN IMPORTANT ELEMENT IN AMERICA'S STRATEGIC PRESENCE IN THE PACIFIC. ITS BEST INTERESTS, COMMERCIAL AS WELL AS MILITARY, MUST BE CONSIDERED IF THE U.S. FORCES IN GUAM ARE TO RETAIN THE GOODWILL OF GUAMANIANS. H.R. 1154 DOES NOT MEASURE UP TO THIS STANDARD AND IS NOT A PRUDENT STEP IN FURTHERING THE FUTURE POLITICAL RELATIONSHIP BETWEEN GUAM AND THE FEDERAL GOVERNMENT.

I HAVE DRAFTED AN AMENDMENT TO H.R. 1154 WHICH WILL CREATE LIMITED EXCEPTIONS FOR THE TERRITORIAL APPAREL MANUFACTURERS WHO EMPLOY U.S. CITIZENS, NATIONALS AND RESIDENT ALIENS. A COPY OF THIS AMENDMENT IS ATTACHED TO MY TESTIMONY FOR YOUR CONSIDERATION. I URGE YOU TO ADOPT THIS AMENDMENT AND SHOW GUAM THE CONCERN IT DESERVES AS A LOYAL AND STRATEGIC FLAG TERRITORY. GUAM AND THE OTHER FLAG TERRITORIES SHOULD BE ALLOWED TO DEVELOP A MODEST APPAREL INDUSTRY. THE FUTURE OF PRIVATE INDUSTRY IN THE TERRITORY AND THE STRATEGIC SECURITY OF THE UNITED STATES DEPEND ON IT.

Chairman **Gibbons**. I think you make a very good point, and I am glad you came and did this. And I am going to ask the staff to look at this. And unless we find some terrible problem, I would wish you would prepare me an amendment so we can amend this bill in committee for that purpose.

Mr. **Blaz**. I salute you, Mr. Chairman, Mr. Crane.

Mr. **Crane**. If you will yield, Mr. Chairman, I would like to, congratulate Ben for the able representation that he has provided to Guam. In addition, his point, in my estimation, is well taken.

Let me ask you a question, Ben. Do any of the other island territories have any textile industry aside from Guam?

Mr. **Blaz**. Yes, sir, the Virgin Islands has a similar problem as Guam does. And this is why my amendment speaks not only of Guam, but the U.S. territories as such.

Mr. **Crane**. Very good. I agree with you wholeheartedly. If we are going to insist upon your observance, as you say, of all of our regulatory acts and our legislation dealing with employment, then by all means it should be classified in toto as any other part of the United States.

Mr. **Blaz**. Thank you, sir, thank you. You are my newest best friend, sir.

Mr. **Crane**. You do a great job, Ben.

Mr. **Blaz**. Thank you very much.

Chairman **Gibbons**. Good. Mr. Frank, we are glad to have you here.

STATEMENT OF HON. BARNEY FRANK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. **Frank**. Thank you, Mr. Chairman. I apologize for the delay over on the floor. And I want to express my appreciation to you and the ranking minority member. Your diligence has been impressive. You guys have, I think, worked more seriously and have been more open to listening to colleagues and others on this bill than most of us do most of the time. So I will not impose excessively.

And I am not going to rehearse a lot of the details of the bill. I just want to talk about one principle that I think is entitled to consideration here. And I understand you have got a difficult job in putting it together.

We all wish as legislators we were in situations where you dealt with what the economists call parado optimality, where you make a change that makes some people better off and nobody worse off. And if that were the case, none of us would have to raise any campaign funds or do much campaigning. And obviously, what we try to do is to approach that. It is not always possible.

And I think we have got a problem here that is new to America really in the trade area, where we have got to borrow from some other areas. That is where some things that are arguably in the interest of the country as a whole have a particularly negative effect on segments of the country. And I think it is reasonable for us, as a matter of public policy to say, we are going to temper the overall economic policies with some provisions that prevent a minority within the country from suffering a very negative impact.

I mean, the problem is that particularly because trade has now become a much more significant factor in our economy, the rising tide does not lift all the boats. The rising tide is a good thing, but there are people who are not in a position to benefit. I think that is especially the case in the industry that is most important to me, which is the garment industry, which is part of this bill.

You were gracious enough to listen to the mayor of Fall River a few weeks ago talk about the work he has been doing. There are people in the ladies' garment industry—and I have other industries there as well in the men's apparel and textiles. But more in the ladies' garment, so I know more about that because I have had more contact with it.

There are people in their late 40s and 50s who got out of high school, went to work at the sewing machine or the cutting machine, have been there all that time. It is really unlikely, given a whole lot of things, that they are going to get retrained at the age of 53 to do something significantly different.

They find their jobs threatened in the ladies' garment industry in part because of imports. Obviously, we cannot shut the world out. And it may well be, to be honest, that 20 years from now the nature of this world is going to be such that there will not be nearly as many jobs there. But I think we have got to do a much better job than we have of managing the transitions.

I do not think we can stand against national and international economic forces and should not try. But we can set the rules better than we have, and we can certainly deal with the problems of transitions and give people a better chance to survive.

In other words what I am doing, I am conceding that if you are someone who has no contact with the garment industry, if your only—well, I guess in the literal sense the only way you would have no contact with the garment is if you were a nudist. But if your only contact with the garment industry is as a wearer or as a retailer, than the bill is not directly in your interest. I understand that. It is in your interest to simply let in any kind of imports from wherever.

And as a matter of fact, as economists have argued, if you are looking at this purely from the consumer's standpoint, then dumping is a good thing because the consumer is the beneficiary of the dumping. Obviously, as national legislators we do not take that position because we have to deal with the consequences negatively economically to those who have been the victims of it.

What I am saying is that I believe that if you look at the impact on the Nation as a whole of the kind of limitation of imports we are talking about here—not like a lot of other countries keeping them out all together, et cetera, but limiting them, that the negative you are going to see is very, very small compared to the disastrous impact not acting is having on some people.

I know there are arguments about this industry or that industry. But I would say within the garment industry there has clearly been some serious negatives. Things have gotten better. These are people who are working hard. They are trying to modernize. People have said to me, for instance, in the garment industry, we understand, we are not going to be able to compete in some of the basic stuff, but we have got an advantage in turn-around time. So that where fashion is a factor, we can respond much more quickly and get the thing out on the racks in terms of fashion. But I think they need some help.

And so as I said, I did not want to impose, and I am going to end my statement here, Mr. Chairman. But I want to acknowledge, I think too often we over-argue. There is the lawyer in some of us that does it, and it is a tendency to over-argue.

And those of us who are for the bill say, the bill is important for people in the industry and it will have no negative effect on anybody else. And there are people on the other side who say, it will have a bad effect on everybody else and the industry is fine without it. Neither one is true.

Obviously, if you are purely a consumer, you are probably a little bit better off, but I think by such a small margin, that the nation as a whole ought to step in here. And if you add in the fact that we are a compassionate nation. We are not going to let people who are 54 years old who lose their jobs because of these imports as some of them have, go without. When you offset the costs overall, I think it makes some sense.

So that is just the one principle I wanted to get across, Mr. Chairman. As I said, I did not want to delay you further because you and the ranking minority member have both been very gracious to those of us with an interest in this bill.

Chairman GIBBONS. Mr. Frank, we appreciate that. And I am sorry that Mr. Pease is not here. He was here right up until now.

Mr. FRANK. He mentioned to me on the floor that he had a——

Chairman GIBBONS. He has done a remarkable job in working with the trade bill we just passed and improving adjustment assistance. We have had it on the books ever since 1962, a trade adjustment assistance law, but frankly, it never has worked. For the first 15 years of its existence the trigger was so tight, or so hard to pull that nobody could ever pull the trigger. Nobody ever got qualified.

Mr. FRANK. I remember that because I was working for Michael Harrington who was a Congressman from the North Shore when we actually got it in 1971 for a shoe company, and it was one of the first instances of when it had ever happened.

Chairman GIBBONS. In 1974 we loosened the trigger. We loosened it so much that everybody got it. And that poisoned the well, as far as the administration was concerned, and they have not been—since then there has been no one in power that has been willing to really administer a trade adjustment assistance program for workers. I think there does need to be a better transition.

Now if a plant closes down in my area where I have got a metropolitan city of 600,000, it is a disaster for some people but they rapidly relocate. But when they close down in some of these small towns where transportation to the next job is impossible, it is a real disaster, not only for the worker but for the community also. I have thought that that is where we ought to concentrate our attention.

I have a hard time geographically placing where your district is. Where is it in relationship to the city of Boston?

Mr. FRANK. The part of it that is directly impacted by this is in the southeastern part of Massachusetts right next to Rhode Island. If you look at a map what you see is that Rhode Island does not touch the ocean. There is a chunk of Massachusetts that is directly to the east of Rhode Island. That is the part of Massachusetts which I represent, and then my colleague Mr. Studds a little bit to the east of me. The cities of Fall River and New Bedford are the major areas; they and the surrounding communities.

Chairman GIBBONS. Do you have a lot of small towns?

Mr. FRANK. I do. But in this case there are two cities, New Bedford and Fall River are about 90,000 each. Not the metropolitan area you are talking about. And they had historically not been areas of great economic growth. That is turning around thanks to some local officials and the overall State economy, it is getting better. But they are communities of about 90,000.

Chairman GIBBONS. Where is Camp Miles Standish? Is it still—I am sure it is not still there. It is probably a park or something nowadays. Is it in your district?

Mr. FRANK. It is not still existent as an army——

Chairman GIBBONS. Is it near Taunton?

Mr. FRANK. Taunton is about 15 miles—my district borders Taunton.

Chairman GIBBONS. I have been in that area, but not in about——

Mr. FRANK. We lost most of our military—we unilaterally disarmed in 1972 during the Nixon administration. Massachusetts was substantially reduced in armaments as a result of some purely scientific calculations in the Defense Department.

Chairman GIBBONS. I recall that.

Mr. FRANK. Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you. Mr. Crane?

Mr. CRANE. The only thing I would say, Barney, is that looking at the unemployment figures for your home State, and the adjacent States, you folks up there in the Northeast have the lowest unemployment rates anywhere in the country. Lowest is New Hampshire at 2.8 percent unemployment; Massachusetts at 3.8; Connecticut, 3.8; Rhode Island, 4. All of which is significantly below what was defined in the Full Employment Act as full employment.

I agree that there are pockets like Fall River.

Mr. FRANK. Right, it is segmented.

Mr. CRANE. What is the unemployment rate in Fall River?

Mr. FRANK. Fall River is about double the rest of the State. And it is particularly segmented—the point is a valid one. And the State ought to be doing something, and the State is doing some things. There has been good cooperation with relocation assistance, use of tax exempt bonds. There was a bad fire in Fall River a couple months ago and the State stepped in and we have been able to relocate, with some Federal help as well, many of those industries.

There are just two things. One, Fall River, it is getting better but it is segmented. The other thing is, some of the individuals involved. You know, a 25-year-old is going to be okay. But a 53- or 54-year-old—not that he or she would not be capable, but there are prejudices in the society and how much you invest in the retraining. So that is where we are talking about.

But nobody denies that this is going to be, over the long term, a declining industry. We understand that. The question is, pace and what happens and what is left.

Mr. **Crane**. Are there any new industries that are looking at Fall River?

Mr. **Frank**. Yes, there have been some. Taunton, which the chairman mentioned, which is within the general metropolitan area just got a big—the first of the big high-tech firms. The GTE company came in with a contract they got to do some field communications for the Army. And that is helping.

And the city is doing some good development of its waterfront land. It has the battleship *Massachusetts*. It has gotten into the tourism and service industry. And there are some other industries that are coming, some electronics and others. I do not doubt that within about 15 years or so that is going to be very much the case.

What has happened is, it started in Boston with the Boston universities. It is moving downward, moving outward from Providence, because we are about 20, 25 miles from Providence. So I think the intermediate term prognosis is good, but we have got a problem for the next 10 or 15 years.

Mr. **Crane**. Thank you for your testimony.

Mr. **Frank**. Thank you both, gentlemen.

Chairman **Gibbons**. Thank you. This concludes today's hearings. If there are any other individuals or organizations who wish to submit statements on this bill, they are requested to submit them to the committee by Friday, June 12. Thank you very much.

[Whereupon, at 12:49, the hearing was adjourned.]

[Submissions for the record follow:]

SUBMISSIONS FOR THE RECORD[1]

STATEMENT OF

AMERICAN INTERNATIONAL KNITTERS
AND
YURI FASHION COMPANY LTD.

CONCERNING H.R. 1154

TEXTILE AND APPAREL IMPORT REMEDIES

BARNES, RICHARDSON & COLBURN
475 Park Avenue South
New York, New York 10016
and
1819 H Street, N.W.
Washington, D.C. 20006

Andrew P. Vance
Matthew T. McGrath
Vincent Bowen

May 29, 1987

This statement is submitted on behalf of American International Knitters, Saipan, CNMI ("AIK") and Yuri Fashions Co., Ltd. ("Yuri"), New York, New York, in response to the Committee's invitation for comments (Committee on Ways and Means, Release No. 87-05, April 24, 1987), on H.R. 1154, the Textile and Apparel Trade Bill. AIK, a producer of knit sweaters and other garments in the Commonwealth of the Northern Mariana Islands, and Yuri, an importer of apparel products from the CNMI, bring to the Committee's attention the serious inequities which will result from treating insular possessions as foreign "countries" for purposes of enforcing contemplated import restrictions under the bill. Such treatment would totally nullify binding U.S. commitments to the CNMI as embodied in the Covenant establishing the Commonwealth, and severely impede the CNMI's economic growth and stability. More importantly, Congressional designation of the Marianas as a "country" for quota purposes would completely ignore the special status conferred upon U.S. insular possessions in Headnote 3(a) of the Tariff Schedules of the United States (TSUS) and constitute a final legislative approval of the administrative practices which rescind the benefits of Headnote 3(a) treatment to the small apparel and textile industries of the CNMI.

I. The Treatment of Insular Possessions as Foreign Countries Would Totally Abrogate Headnote 3(a) Benefits.

The Commonwealth of the Northern Mariana Islands is defined in the General Headnotes of the TSUS to be an "insular possession," and as such, is entitled to export products duty-free to the United States under General Headnote 3(a). The only condition to the privileged treatment embodied in Headnote 3(a) is that the imported products must not contain foreign materials exceeding 70% (50% for textile products) of their total value. Recent attempts by the U.S. Customs Service to enforce bilateral textile restraint agreements with foreign countries have resulted in the severe dilution, if not complete elimination, of the duty free treatment accorded to insular possessions under Headnote 3(a). Basically, Customs has erected a substantial transformation test as a country of origin rule governing controlled textiles which are produced in more than one country or possession.[1] Prior Customs interpretations of Headnote 3(a) recognized that substantial processing, including assembly operations, was sufficient activity to confer origin status in the possession and entitled the products to enter free of duty.[2] The application of a substantial transformation test (as opposed to a substantial processing test) to textile products processed in territorial possessions, which are often not developed enough or are incapable of engaging in heavy manufacturing, served to redefine the country of origin for textile quota purposes as the location from which the components originated.[3]

---

[1] The Chairman directed that communications received from foreign sources be included in the printed record.

This administrative redesignation of the country of origin, which grouped insular possessions with other countries for textile restraint purposes, was accomplished in disregard of the distinctive statutory treatment carved out for imports from U.S. territories and insular possessions under Headnote 3(a). Approval by the Ways and Means Committee of the measure in H.R. 1154 to include "insular possessions" within the definition of "country" would explicitly sanction the singular treatment of U.S. possessions and foreign countries in enforcing textile restraints in complete derogation of the special status of insular possessions. Acceptance of the provision as written would only serve to perpetuate the conception that Headnote 3(a) benefits are subsidiary, and indeed nonexistent, when compared with the policy concerns of enforcing textile restraint programs. However, AIK and Yuri submit that the legislation could be revised to take into account both policy goals without making one necessarily subservient to the other.

The categorization of possessions with countries will not only ignore the development policy of Headnote 3(a), it will be injurious to the CNMI's economy. Classification of the CNMI as a "country," will subject it to the contemplated global quota on all textile categories of the Multi Fiber Arrangement. This presents numerous problems. First, the placement of CNMI textile exports in worldwide quota categories would displace the present visa waiver system for certain CNMI sweater categories, negotiated by the Committee for the Implementation of Textile Agreements ("CITA") and the CNMI government. See 51 Fed. Reg. 39,902 (1986). While this waiver system is an imperfect attempt to counteract the adverse affects of the Customs textile quota origin rules, it at least permits previously established productive activities in the CNMI to continue, despite the cloud of textile quotas. If H.R. 1154 is enacted without a statutory directive requiring the Commerce Department to allocate a portion of the global quota on these sweaters to the Marianas, it cannot be assumed that CITA will continue to do so on its own initiative. Second, application of the proposed global quotas to the CNMI will be impossible in light of current changes to country of origin rules. Assuming that existing origin rules are used to enforce the import restrictions of H.R. 1154, it is probable that no quota amount under any textile category will be allocated to the CNMI, as Customs' quota origin rules establish a presumption that no textile product originates in the CNMI; if quota allocations under H.R. 1154 are based on historical market shares of particular countries and localities for particular commodities, the CNMI will receive no allocation.4/ Once again, it cannot be assumed that without a statutory basis, CITA will apportion a share of any category to the CNMI. In fact, if H.R. 1154 is enacted in current form granting unfettered administrative discretion to regulate the allocation, the interests of the territories and possessions will likely be disregarded since CITA worked with the U.S. Customs Service in revising the origin rules to require visas from textile products processed in the possessions.

---

[1] Customs was purportedly acting pursuant to Executive Order 12475, 49 Fed. Reg. 19,955 (May 9, 1984), which authorized the Treasury Department to issue regulations governing the entry of textiles subject to bilateral restraints, with emphasis on clarifying country of origin rules to avoid circumvention of quota agreements. Customs included "insular possessions" in the definition of "country of origin" in its final regulations. 50 Fed. Reg. 8710-8726 (March 5, 1985) (codified at 19 C.F.R. 12.130).

[2] Customs Headquarters Rulings 071476 (1984); 067217 (4/10/81); 027371 (5/14/73).

[3] Textile products undergoing processing in the Possessions thus could not enter the United States unless accompanied by an export visa issued by the country that manufactured the component parts of the garment produced in the possession. Although the substantial transformation test was anticipated to define a product's origin for quota purposes only, Customs is currently in the process of unifying the test for the various purposes served by country of origin rules, including dutiability. Thus, textiles processed in the possessions will no longer be considered products of the possessions for duty purposes, and will lose their duty free status. While visa waivers have been negotiated and implemented on some categories of sweaters assembled in the CNMI, see 51 Fed. Reg. 39,902 (1986), the waivers are numerically restricted, subject to local labor requirements, and will not protect CNMI processed textiles from dutiability once Customs standardizes its substantial transformation test.

A third inequity arising from the proposal is that CITA is apt to neglect potential productive capacity of the possessions in making its allocations according to traditional market shares. Developing territories such as the CNMI have no assurances that expansion into more extensive textile production will be met with a quota allocation which takes this capacity increase into account. Presently, as many as nine companies are planning to open small textile production facilities in the CNMI. Without access to the U.S. market, it is doubtful whether this development will continue if the United States ultimately determines to treat the CNMI as a foreign country in H.R. 1154. Absent Congressional action, it is likely that quota allocations under H.R. 1154 will be frozen according to current market shares, limiting the developing territories to virtual zero growth.

The territorial possessions engage in some intermediary processing operations which are admittedly distinguishable from completely integrated manufacturing of the type performed in developed countries. This difference is attributable to the absence of a local economic infrastructure and skilled labor sufficient to support full-scale production in the possessions. The possessions, therefore, often are engaged in the only type of productive activity which economic circumstances allow. The United States has not only recognized the limited possibilities for economic growth in the possessions, it has actively encouraged the establishment of light industry in the CNMI and other localities under Headnote 3(a). The policy embodied in Headnote 3(a), as adopted by the Tariff Classification Act of 1962, originated in Section 401 of the Customs Simplification Act of 1954, which was designed to promote light

---

4/ Proponents of the provision treating U.S. terrritories and foreign countries as one and the same have stressed that Headnote 3(a)'s duty free policy is not interfered with, since H.R. 1154 does not revise the dutiability language of 3(a). However, it is obvious that retaining duty free status while eliminating access is a hollow benefit and tantamount to allowing free entry to goods which cannot be entered.

industry in the possessions.[5] Now that successful strides toward development of light industry in the possessions have been made, the U.S. should not be contemplating the effective withdrawal of preferential status. The Headnote 3(a) goals are effectuated by a two-tiered production system in the textile trade; foreign countries manufacture garment components while possessions perform substantial processing operations. Congress is presently on the verge, in H.R. 1154, of formally creating a single-tier approach to regulating textile imports to the United States.

II. The United States Has Engaged In A Special Relationship With The Marianas To Foster Economic Growth.

The designation of the CNMI as a foreign country for trade purposes would repudiate long-standing commitments by the United States to assist actively in the development of the region. Following the Second World War, the Marianas were established as a Trust Territory by the United Nations, with the United States as administrating authority. The Trust Territories were each assigned an administrating authority which was directed "to foster the development of such political institutions as are suited to the trust territory and ... promote the development of the inhabitants of the trust territory towards self-government or independence". United States Trusteeship Agreement, Art. 6(1). More significantly, the administering authority was to "promote the economic advancement and self-sufficiency of the inhabitants, and to this end shall regulate the use of natural resources; encourage the development of fisheries, agriculture, and industries; protect the inhabitants against the loss of their lands and resources; and improve the means of transportation and communication." Id., Art. 6(2). While the other members of the Trust Territory sought status as independent nations (through a Compact of Free Association of the Marshall Islands and Micronesia), the Northern Marianas chose instead to enter into a close, permanent economic tie with the United States. This arrangement was negotiated from 1963 to 1975, culminating in the "Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States." The Covenant was overwhelmingly approved by the people of the Marianas in a 1975 plebiscite and approved by a Joint Resolution of Congress in 1976, Pub. L. No. 94-241, 94th Cong., 2d Sess. (1976). The Joint Resolution reaffirms the United States' obligation to "promote the development of the people of the trust territory towards self-government or independence as may be appropriate to the particular circumstances of the trust territory and its people." Id., Preamble, 2d Para.

The Covenant represents a special relationship between the United States and the U.S. Commonwealth of the Northern Mariana Islands. The Marianas are bound by the Covenant to a permanent political relationship with the United States, including U.S. citizenship for the inhabitants of the islands. The Covenant established the Commonwealth "in political union with and under the sovereignty of the United States of America." Covenant, Section 101. United States income taxes are collected, and the U.S. Government has "complete responsibility and authority with respect to foreign affairs and defense...". Id. Section 104. The principal economic development component of this relationship is the special treatment of U.S.-Marianas trade under the Covenant. Although the CNMI is explicitly excluded from the customs territory of the United States, imports from the islands are to be granted the same favorable treatment as imports from Guam. The CNMI is granted the authority to impose duties on articles imported into the Commonwealth, except for articles imported from the customs territory of the United States. In addition to this limitation on duty treatment of articles from the United States, the Covenant recognizes the need for developmental assistance in the promise that "the United States will seek to obtain from foreign countries favorable treatment for exports from the Northern Mariana Islands, and will encourage other countries to consider the Northern Mariana Islands a developing territory". Section 603(d) (emphasis added).

---

[5] In considering the dutiable status of watches and clocks in the 1966 timepiece legislation, the Senate Finance Committee explained the purposes of the 1954 Act:

> The 1954 statute not only provided uniformity of treatment among the possessions but it was calculated to, and effect has, stimulated the development of light industry in the possessions. The development of light industry has helped the economy of the possessions, particularly the Virgin Islands, where numerous new businesses have been established to produce or assemble various articles for duty free shipment to the United States.

S. Rep. No. 1679, reprinted in 1966 U.S. Code Cong. & Admin. News 4389, 4390.

Thus, this combination of undertakings in the Commonwealth Covenant highlight the fact that the United States has determined to treat the Northern Marianas as an entity other than a foreign country; the CNMI is an economic and political entity under the sovereignty of the United States, which the United States has historically treated as a developing area and a closely bound political entity. In approving the Covenant the U.S. Congress distinguished clearly between the CNMI and foreign countries. Despite this clear and extensive history of special treatment by Congress, H.R. 1154 would, without stated justification, restrict imports of apparel from a territory -- not a foreign country -- in political union with the United States which is not permitted to restrict U.S. trade in a similar manner. Classification of the CNMI as a foreign country is thus contrary to both U.S. Congressional intent over many years, and the U.S. treaty obligations of the trusteeship.

III. The Use Of Non-Resident Labor In The CNMI Does Not Justify Elimination Of Headnote 3(a) Treatment

Recent suggestions have been made that the presence of foreign laborers in the CNMI is contrary to the local development purposes served by Headnote 3(a). The implicit conclusion of this argument is that Headnote 3(a) treatment should be rescinded or curtailed, and that the reclassification of the CNMI as a foreign country subject to quota restraints is an appropriate mechanism for such purpose. AIK and Yuri urge the Committee to reject this argument and its erroneous underlying assumptions.

First, it is clear that the alien labor argument fails to take into account all the surrounding circumstances and the positive effects of this large augmented work force. With a population of 16,780 (1980 Census figure), the CNMI obviously lacks an adequate supply of indigenous labor to engage in the light manufacturing that the U.S. has encouraged (unlike Guam, with a population of more than 110,000, or 6½ times that of the CNMI, and to which the CNMI is sometimes unfairly compared.) Thus, in order to effectuate U.S. goals of establishing processing operations, it is necessary to use skilled foreign labor, particularly at the outset of production. It must be emphasized that 100% of all foreign textile workers in the CNMI are classified by the Commonwealth as skilled laborers. Given the limited supply of local skilled labor to draw upon, industries in the CNMI had no choice but to tap extraterritorial sources of labor.

Significantly, even though the CNMI textile industry must rely to some extent upon foreign labor, the CNMI is attempting to placate U.S. concerns by initiating several concessions. First of all, the government of the Commonwealth has recently undertaken substantial efforts to educate and train the native population to incorporate them into an industrialized society. Moreover, as proposed in a special bill to the CNMI legislature in April 1987, a new immigration law would allow textile manufacturers to procure alien workers on a replacement basis only, thereby freezing the total number of foreign laborers. The same bill contains provisions for the tightly controlled growth of the textile industry in the Marianas. Thus, while the CNMI cannot be considered responsible for the economic circumstances which forced it to rely on imported labor, the government and local textile industry have nonetheless assumed progressive obligations to mollify U.S. concerns on the matter.

Inherent in any criticism of the CNMI's reliance on foreign labor is the assumption that the local economy is not enhanced by the use of alien workers. Nothing could be further from the truth. If not for foreign labor, plants would close and the local laborers who comprise 30% of the textile industry would be unemployed. More importantly, the contributions of alien laborers to the total economic infrastructure should not be overlooked. Alien workers pay local taxes and support many other economic sectors which are staffed mainly with local labor. Without a foreign source of labor, there would be very little opportunity for any industrial development in the CNMI, as envisioned and promoted by Headnote 3(a) and its predecessor statute.

Finally, if the degree of foreign labor participation in the CNMI textile industry ever posed a concern or threat to the local development policy of Headnote 3(a), the concern was adequately addressed in the recent negotiation of export visa waivers for certain knit sweater categories, a primary CNMI textile export. The 1987 waivers are conditioned upon local labor content requirements. Moreover, local labor currently comprises 30% of the CNMI textile industry and local textile workers represent 8% of the entire CNMI work force.

In summary, the only argument offered to support the effective rescission of Headnote 3(a) benefits by treating possessions as "countries" in H.R. 1154, is that the percentage of foreign labor content in CNMI textile exports is relatively high. Despite the fact that this concern has been adequately addressed in quota waivers, and in disregard of the CNMI's good faith efforts to reduce reliance on foreign labor, proponents of defining the CNMI to be a "foreign" country seem more concerned with rationalizing the removal of Headnote 3(a) benefits, rather than being genuinely interested in reaching an accommodation point between two seemingly variant policies: (1) effecting a global textile quota based on traditional market shares, while (2) maintaining preferential tariff treatment to encourage development in U.S. possessions. As currently drafted, H.R. 1154 portends certain death for 3(a) benefits on textiles, while purporting not to affect Headnote 3(a) at all. Such an outcome offends the long-established preferential treatment of textile exports from possessions and is manifestly incompatible with long-standing U.S. commitments to the CNMI.

Conclusion

The unique purposes and Congressional policy underlying Headnote 3(a) of the Tariff Schedules would be severely compromised and indeed, effectively repealed with respect to textiles and garment manufacturing, by H.R. 1154 as it is presently worded. The only policy concern which may have been relevant -- the use of skilled alien laborers in the CNMI workforce -- has been addressed through the recent administrative visa waiver mechanism. The historically consistent policy of territorial development can be served by amendment of Section 8(6) of H.R. 1154 to delete the words: "... and insular possession of the United States," and "... whether affiliated with the United States or not,...".

Respectfully Submitted,

Matthew T. McGrath
BARNES, RICHARDSON AND COLBURN

Andrew P. Vance
Matthew T. McGrath
Vincent Bowen

Counsel to

AMERICAN INTERNATIONAL KNITTERS
YURI FASHIONS COMPANY LTD.

AMERICAN PRESIDENT LINES, LTD.

Michael Diaz
Senior Vice President
Marketing/Logistics

June 16, 1987

JUN 25 1987

Honorable Sam Gibbons, Chairman
Subcommittee on Trade
Committee on Ways and Means
1136 Longworth House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

On behalf of American President Lines, Ltd. (APL), I am writing to express opposition to H.R. 1154, "The Textile and Apparel Trade Act of 1987." It is my understanding that the Subcommittee is currently holding hearings on this legislation, and I would respectfully request that this letter be made a part of the hearing record.

APL is a West Coast based transportation company providing ocean and rail service between the United States and the Pacific Basin. APL specializes in containerized ocean carriage between Asia and the United States, and provides special containerized rail service between West Coast ports and Mid-West and East Coast points. A significant amount of the cargo carried by APL in this transportation service consists of consumer products, including textiles, apparel, and footwear products which would be directly and adversely affected by enactment of H.R. 1154.

A recent analysis by the International Business and Economic Research Corp. of Washington, D.C. estimates that retaliation by trading partners affected by H.R. 1154 could potentially impact $29 billion of U.S. exports and more than 700,000 jobs in export industries.

The Congress is presently engaged in a serious, and we believe constructive debate on comprehensive trade reform legislation. While there may exist a divergence of views on specific provisions of such legislation, it is in within the context of overall trade legislation that solutions to America's trade problems will be found. Industry specific legislation to impose quotas on textiles, apparel, and footwear, or other goods and products will not solve our trade imbalance.

We urge the Committee and the House of Representatives to reject H.R. 1154, the Textile and Apparel Trade Act of 1987.

Sincerely,

Michael Diaz

1800 Harrison Street
Oakland, California
94612 U.S.A.

BEFORE THE SUBCOMMITTEE ON TRADE
OF THE COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

TESTIMONY OF

JOHN D. GREENWALD
ROBERT C. CASSIDY, JR.
Wilmer, Cutler & Pickering
Washington, D.C.

In Hearings on H.R. 1154, the Textile and Apparel Trade Act of 1987

May 29, 1987

We are partners in the law firm of Wilmer, Cutler & Pickering and represent the American Textile Manufacturers Institute. We both practice international trade law. Before we entered private practice, each of us served in government positions with responsibility for international trade matters. Mr. Greenwald was Deputy Assistant Secretary of Commerce for Import Administration during 1980 and 1981 and, before that, was Deputy General Counsel of the Office of the U.S. Trade Representative. Mr. Cassidy was General Counsel of the Office of the U.S. Trade Representative from 1979 to 1981; he came to the Trade Representative's office from the Senate Finance Committee where he was international trade counsel. Our testimony focuses on the consistency of H.R. 1154 with the obligations of the United States under the General Agreement on Tariffs and Trade (the "GATT"). In our view, the import program provided for by the bill is consistent with U.S. GATT obligations.

H.R. 1154 would limit the growth of imports of textile and apparel products and non-rubber footwear on the basis of findings by the Congress that increased imports have caused serious injury to the domestic industries producing these products. Article XIX of the GATT expressly authorizes a country to restrain imports in such circumstances and other GATT contracting parties have, in fact, invoked their GATT Article XIX rights in order to restrain textile apparel and/or footwear imports. Thus, far from being GATT-illegal, H.R. 1154 follows well-established GATT precedent. It is difficult for us to understand how the Administration, in particular, can object so strenuously to H.R. 1154 when the provisions of the bill do no more than parallel the way in which other countries have invoked their Article XIX rights.

The GATT-related objections that have been raised to the provisions of H.R. 1154 are (1) that the restrictions would be imposed by Congressional, rather than the Executive branch, action, (2) that the restrictions cover a full range of textile, apparel and non-rubber footwear products, (3) that there is no pre-determined schedule for removal of the restrictions, and (4) that the bill would, if enacted into law, provoke retaliation against U.S. exports. In our view, none of these objections raises a legitimate GATT issue. We address each of them in detail below. However, before responding to the specific objections that have been raised by the opponents of the bill, a brief review of Article XIX actions taken by other countries to limit imports of textile, apparel and/or footwear products will help put H.R. 1154 in its proper perspective. It is important for the Committee to understand that the import program established by this bill is not different in kind from action taken by our trading partners.

A. There Is International Precedent for the Type of Import Restraint Program Provided for in H.R. 1154

Broad-based restraint measures on imports of textile apparel and/or footwear products are not new to the GATT. For example, Canada invoked Article XIX to impose quantitative restraints on imports of all apparel products in November, 1976.[1] The Canadian restraints were imposed without any provision for their reduction or elimination and were justified by an injury finding that was based upon industry-wide data.[2] Furthermore, in at least one important respect, the Canadian restraints were significantly more restrictive than those provided for under H.R. 1154. The Canadian program involved a rollback of imports to the levels that existed two years earlier (i.e., 1977 imports were not allowed to exceed 1975 import levels). In contrast, the restraint levels established by H.R. 1154 would equal imports during the most recently completed calendar year plus a growth factor (e.g., 1987 imports may equal 101 percent of 1986 levels).

In late 1977, Norway followed the Canadian example with its own GATT Article XIX restraints on imports of nine broad textile categories. The Norwegian action, like that taken by Canada, involved a roll-back in imports. The surge in imports that Norway cited to justify its action was similar to, although on a far smaller scale than, the surge in U.S. imports of textile and apparel products that has occurred over the past several years. Norway imposed its restraints because total low-priced imports of clothing had increased from NKr. 225 million (U.S. $42.5 million) in 1973 to NKr. 581 million (U.S. $109.6 million) in 1977.[3] By comparison, total imports of textiles and apparel into the United States rose from 11.7 billion dollars in 1982 to 24.7 billion dollars in 1986.

The Norwegian action was challenged in the GATT by Hong Kong because the way in which the quotas were allocated discriminated against Hong Kong exports.[4] Significantly, during the GATT proceedings Hong Kong assumed "that Norway had the necessary justification for taking the action" and limited its complaint to the discriminatory nature of the quotas.[5] In contrast to the

---

[1] 110 Canada Gazette, Part II, 3296 (December 22, 1976). The articles subject to the import restraints were pants, including jeans, slacks, shorts, overalls and coveralls; unstructured or leisure suits, including unstructured sports coats and blazers; blouses and ladies' shirts, including T-shirts and sweat shirts; pyjamas and sleepwear; raincoats; sportswear, including dresses and coordinates; foundation garments; swimwear; underwear; top coats, overcoats and outer jackets, including duffle coats, suburban coats and pant coats; men's fine suits and jackets, including sport coats and blazers; leather coats; men's and boy's shirts, including T-shirts and sweat shirts; and sweaters, pullovers and cardigans.

[2] Clothing Inquiry, A Report to the Minister of Industry, Trade and Commerce by the Textile and Clothing Board, May 29,1977 at V-28, 29. (Hereinafter referred to as Clothing Inquiry).

[3] GATT BISD, 27th Supp. (March 1981) at 123.

[4] Id. at 125-126.

[5] Id. at 125. Hong Kong prevailed in its charge that the discriminatory nature of the Norwegian restraints violated the GATT.

Norwegian action, the restraints provided for under H.R. 1154 are non-discriminatory in nature.

There is also international precedent for GATT Article XIX import restrictions on a broad range of footwear items. Both Canada (from 1977-1985) and Australia (from 1974-1982) have acted under GATT Article XIX to limit imports of such products from major suppliers.

B. The Import Program Provided for by H.R. 1154 Is Not Inconsistent With U.S. GATT Obligations Because It Involves Congressional, Rather Than Executive Branch, Action

Administration spokesmen have suggested that H.R. 1154 is somehow illigitimate for purposes of the GATT because it "bypasses" existing procedures under which the President may provide import relief to domestic industries that are seriously injured by import competition.[6] These officials seem to be under the illusion that the Executive branch is responsible for regulating the international trade of the United States. They would do well to read the Constitution. Article 1, Section 8 of the Constitution reserves for the Congress, not to the President, the power to regulate commerce with foreign nations. The suggestion that H.R. 1154 is incompatible with the GATT because it bypasses procedures under which the President has been delegated authority to grant "escape clause" relief is absurd.

As a matter of U.S. law, the Congress has the power to regulate imports either directly or by delegating specified powers to the President. The fact that authority has been delegated to the President under Section 201 of the Trade Act of 1974 to limit imports under prescribed conditions cannot, and does not, preempt or limit the authority of Congress to exercise its powers over foreign trade.[7] For purposes of GATT law, the fact that escape clause action is taken by the Congress instead of the President is of no relevence. The GATT establishes substantive rules which prescribe the conditions under which escape clause action may be taken; it does not limit in any way the domestic institutional arrangements by which a GATT Contracting Party may choose to exercise its Article XIX rights.

---

[6] Testimony by Ambassador Michael B. Smith on the Textile and Apparel Trade Act of 1987 before the Trade Subcommittee of the Ways and Means Committee of the U.S. House of Representatives, May 18, 1987, hereinafter referred to as Smith Testimony. ("Thus the bill provides for permanent protection to three entire industries while bypassing established U.S. procedures (under Section 201 of the Trade Act of 1974) for taking GATT-legal safeguards measures.") See also, Memorandum dated March 13, 1987 from Alan F. Holmer, General Counsel of the Office of the United States Trade Representative to Ambassador Clayton Yuetter, U.S. Trade Representative at 3, hereinafter referred to as Holmer Memorandum. ("The United States has a Section 201 process which domestic producers of any textile or apparel product could use to seek escape clause relief in accordance with Article XIX of the GATT. Preemption of that process by a sweeping Congressional finding would create a high degree of suspicion that this is not a legitimate safeguards action.")

[7] See Callahan v. United States, 285 U.S. 515 (1931); Kepner v. United States, 195 U.S. 100, 125 (1904).

C. The Import Restraints Prescribed by H.R. 1154 Are Not Overly Broad

Critics of H.R. 1154, including Administration spokesmen, have asserted that the bill violates the GATT because the restraints are overly broad. In particular, they contend that Article XIX requires a finding of increased imports, injury and causation for each "product" (narrowly defined) subject to restraints.[8] There is nothing in the language of the GATT or GATT practice that supports this narrow product-specific approach to Article XIX actions.

Article XIX permits the imposition of import restraints on imports of "any product." While the term "product" as used in Article XIX is undefined, past practice by the United States and other Contracting Parties has been to interpret it broadly. The restrictions on textile and apparel imports imposed by Canada in 1976 and Norway in 1977 were on a broad product category basis and the findings of injury which justified the actions rested in large part on industry-wide data.[9] Similarly when the United States invoked GATT Article XIX in 1977 to restrain imports of footwear, it did so on the basis of a finding of injury by the U.S. International Trade Commission that treated all types of non-rubber footwear as a single "like or directly competitive" product. When the Commission revisited the footwear import issue in 1985, it once again found injury on an industry-wide basis.[10]

The accepted practice of interpreting the term "any product" in a broad fashion is a function of both the structure of GATT Article XIX and the practical considerations that underlie escape clause relief. Article XIX authorizes import restrictions whenever a Contracting Party concludes that imports of any product are causing, or threaten to cause, serious injury to domestic producers. The import restrictions may be designed to remedy or to prevent injury. In a case involving an industry like textiles, apparel or footwear, where manufacturers can shift easily from one narrowly defined product to another (e.g., a shift in loom use from printcloth to sheeting), a narrow interpretation of the term "product" would obviously defeat the very purpose of escape clause relief -- i.e., it would simply cause a change in the nature of the import problem by encouraging exporters to make relatively minor changes in their product mix.

---

[8] Smith Testimony at 7; Holmer Memorandum at 3.

[9] See Clothing Inquiry at V-28. In summarizing the basis for its finding that apparel imports were causing injury, the Canadian Textile and Clothing Board cited the following factors:

1. The share of the total Canadian apparel market supplied by Canadian manufacturers had declined from 73 percent in 1971 to an estimated 55 percent in 1976.
2. Import penetration of 45 percent indicated that the tariff protection accorded the apparel industry was, by itself, inadequate to permit the industry to compete with imports.
3. Foreign textile producers received substantial financial assistance for the prime purpose of exporting.
4. Restraints imposed by the United States on textile imports had been more effective than the restraints imposed by Canada.
5. In 1975 and 1976 capital and repair expenditures by Canadian apparel manufacturers were 22 percent below 1974 levels.

[10] Non-rubber Footwear, Report to President on Investigation No. TA-201-55, USITC Publication 1717 (July 1985). The Administration has stated that "low-priced footwear was excluded from the International Trade Commission's serious injury finding." (Holmer Memorandum at 3.) This is simply wrong. The injury finding covered all non-rubber footwear. The relief recommended by the Commission contained an exclusion for low-priced footwear.

However, even if one were to look at imports of textiles, apparel and footwear on a narrow product basis, the evidence of increased imports, injury and causation is compelling. Standard practice in the United States and other countries (see, e.g., the justification for Norway's Article XIX action on textile products[11/]) is to assess injury by examining import trends and the condition of the domestic industry over a five year period. The five year trend in textile apparel and footwear imports both in absolute terms and relative to U.S. production has been alarming.

The Department of Commerce has just published a report on Import/Production Ratios for Cotton, Wool and Man-Made Fiber Textiles and Apparel, which covers 143 separate product types (i.e., everything from wool tops to cotton yarn dyed fabrics to women's, girls' and infants' cotton coats). Over the 1982-1985 period, imports increased in absolute terms and/or relative to U.S. production in every single product category. In all but five cases, there was a rise in the import to domestic production ratio and in a full third of these, the ratio increased by a factor of two or more. Instances in which there was a sharp rise in imports was coupled with declining or stagnant domestic production were, unfortunately, the rule. When the sharply rising imports and import penetration ratios are viewed in the context of the documented plant closures, layoffs and sub-par financial performance of the textile and apparel industries over the past five years, the GATT injury case is clear. The record before the Committee on the injury caused by rising imports on both an industry-wide basis and a narrow product line basis is unambiguous. H.R. 1154 cannot, does not, and need not recite all the injury evidence in the record. It is sufficient that the evidence before the Committee provides a very strong basis for the Article XIX action provided by the bill.

The relationship between rising imports and injury to the footwear industry is equally clear. In July, 1985 the U.S. International Trade Commission found that increased imports were a substantial cause of serious injury to the U.S. footwear industry, but the President refused to act on the Commission's findings. Since then, the situation has (as the footwear industry had predicted) deteriorated further. In 1986 footwear imports rose 11.6 percent over 1985 levels, import penetration reached 80.7 percent, another 70 U.S. factories closed, another 7,400 American workers lost their jobs and domestic footwear production dropped by more than 12 percent.

[11/] GATT, BISD 27th Supp. at 123.

D. The Import Program Provided for by H.R. 1154 Is Not Inconsistent With U.S. GATT Obligations Because There Is No Predetermined Expiration Date For Elimination of the Restraints

GATT Article XIX authorizes the imposition of import restrictions "to the extent and for such time as may be necessary to prevent or remedy [the] injury." Article XIX does not authorize permanent protection, but neither does it require that each decision to take Article XIX action include a predetermined timetable for removal of the restraints. Thus, for example, when Canada took Article XIX action on apparel products, its decision to impose restraints did not limit in any way the time during which the restraints were to remain in effect. Rather, when the need for the restraints disappeared, they were removed by subsequent Canadian government action.

Opponents of H.R. 1154 have alleged that the bill establishes "permanent" protection. This is simply not the case. The purpose of H.R. 1154 is to remedy serious injury; when that has been done, the restraint program can be and should be dismantled. In fact, there are provisions in the bill itself for reviewing the operation of the program that should be used for precisely this purpose. The critics of the bill are confusing the absence of a predetermined time period for dismantling import restraints in the bill (which is not required by Article XIX and is not GATT practice -- in fact, it is impossible to determine in advance when Article XIX restraints will no longer be necessary) with permanent restrictions. In other words, they are mischaracterizing the bill and then claiming GATT "illegality" on the basis of this mischaracterization.

E. The Compensations Provision of H.R. 1154 Conform to GATT Practice

H.R. 1154 provides the President with specific authority to compensate exporting countries that can show they are adversely affected by the import regime established by the bill. Notwithstanding this express provision for compensation, the Administration has suggested that the inevitable consequence of the bill is "retaliation against our exports." The Administration greatly underestimates the value of the compensation provisions of the bill and greatly exaggerates the likelihood of retaliation.

The import restraints provided for by H.R. 1154 do not involve any roll-back in trade. Therefore, the extent to which they can be said to adversely affect the interests of textile exporting countries is purely speculative. In most cases, a ten percent reduction in textile apparel and footwear tariff levels will more than offset the damage that may be fairly attributable to the quota provisions of H.R. 1154. Thus, for example, while the Administration maintains that "the European Community already has indicated that it will retaliate" if the bill is enacted into law,[12] the Europeans would be very hard pressed to show any adverse impact resulting from the bill. The effect of exchange rate shifts in the value of the dollar and major European currencies should make it difficult for European suppliers to maintain their shipments at last year's levels, much less increase them, whether the bill is enacted into law or not.

The provisions of the bill will have a significantly greater impact on countries other than Europe and Japan, whose

---

12/ Smith Testimony at 6.

currencies have not appreciated significantly against the dollar, but even in these cases the value of a ten percent reduction in tariffs should not be underestimated. For companies that operate on small profit margins, such a tariff cut can translate directly into a significant boost to the "bottom line."

Finally, GATT practice over the past twenty years shows an overwhelming preference (1) for resolving Article XIX actions through consultations and (2) against retaliation. According to a survey by the U.S. Trade Representative's Office of Article XIX measures during the period 1965-1985, a total of 86 actions were taken by several different countries. In 80 of the 86 cases, the country taking the action apparently did not offer compensation to the countries affected and, even without compensation, no retaliatory action was taken. In four other cases, compensation was offered and accepted. Only in two of the 86 cases were adversely affected countries unable to reach accommodation with the country taking the Article XIX action and even in these cases there was never anything that approached a "trade war."

This Administration, like its predecessors, has used the spectre of trade retaliation to argue against trade actions which it opposes for other reasons. Given the actual record regarding escape clause actions and retaliation, this Committee ought to respond to the latest round of retaliation warnings with considerable skepticism. Most of our trading partners recognize the enormous imbalance that exists in their trade with the United States. They accept the premise that the U.S. simply cannot continue to incur trade deficits year after year in the 100-200 billion dollar range and they recognize that, under these circumstances, retaliation serves no useful purpose.

H.R. 1154 should be enacted into law by the Congress because the U.S. textile, apparel and footwear industries have, over the past five years, been seriously injured by rising imports. If no action is taken -- and, left to its own devices, the Administration will take none -- the trends of the past five years will continue. The very real costs of another period of rising imports and contracting domestic production are, especially at a time of a 150 billion dollar U.S. trade deficit, unacceptable.

asean

ASSOCIATION OF SOUTHEAST ASIAN NATIONS
WASHINGTON COMMITTEE

MAR 23 1987
WAYS AND MEANS

March 17, 1987

Dear Congressman Rostenkowski,

We, the Ambassadors of the Association of Southeast Asian Nations (ASEAN), view with grave concern, the new Textile Bill (HR 1154 and S549) herein called the Bill, introduced in the House of Representatives and the Senate on February 19, 1987. The Bill, if enacted, would severely impair the exports of developing countries like ASEAN who are small and medium sized suppliers to the United States. Furthermore, the Bill undermines the achievements made thus far under the Multi-Fiber Arrangement (MFA) and the General Agreement of Tariff and Trade (GATT); threatening to jeopardize further progress in multilateral trade negotiations.

2. The Bill is also inconsistent with existing bilateral textile agreements between the United States and its trading partners. Negotiated quota levels may have to be cut back or removed, and provisions for base levels, growth and flexibility will be rendered meaningless by Section 4 (a) of the Bill which proposes an aggregate limit on all textilesand textile products within each category equal to an amount no greater than 101% of the total U.S. imports of that category in 1986.

3. Section 9(b) of the Bill further provides that 1987 imports in excess of 101% of 1986 imports will have to be subtracted from the succeeding year's quota ceiling. Depending on the amount of excess imports, this provision could result in either a freeze at 1986 import levels or an actual rollback of imports instead of growth. The provision would violate the existing bilateral agreements so painstakingly negotiated between the United States and the 5 ASEAN countries.

4. At the multilateral level, the Bill is inconsistent with Articles 3 and 6 of the MFA. Article 1 of the MFA provides that safeguard measures should only be applied in accordance with the provisions of the MFA. Under Article 3 of the MFA, restraints on textile and apparel products should

BRUNEI INDONESIA MALAYSIA PHILIPPINES SINGAPORE THAILAND

be applied to particular products of particular countries which have been determined to cause market disruption. Such determination should be based on the existence of serious injury, demonstrated by volume of imports, profits, employment and productivity of the domestic industry. The Bill proposes to establish a blanket quota covering all countries and each category of textile and textile product imports without determination of the existence and cause of injury. In fact, the U.S. Textiles and Apparel industries has outperformed the overall manufacturing sector in 1986 in terms of production, employment, wage earnings, profit and capacity utilization. Textile exports by the United States rose by 10% in 1986, with higher productivity and stable employment. ASEAN is deeply concerned that the Bill emphasizes growth in imports per se as the grounds for safeguard measures. This could set a dangerous precedent for other trading partners and cause potential harm to the economies of the developing as well as developed countries, including the United States.

5. The proposal to impose a global quota in the Bill also violates Article 6 of the MFA which calls for more favorable treatment to be accorded to developing countries in respect of textile opportunities.

6. The Bill is inconsistent with Article XIX of the GATT and with the standstill and rollback commitment made at Punta del Este last September. Article XIX stipulates that protective measures be instituted only for particular products and not the entire industry, to the extent and for such time as may be necessary to remedy injury, with compensation to be given to other Contracting Parties for trade losses sustained. Under the Bill, the provision for product specificity is not adhered to as the proposed safeguard measure covers all textiles and textile products. Furthermore, there is no prior determination of serious injury to support the imposition of a global quota contemplated by the Bill. The latter also proposes the establishment of permanent rather then temporary relief, without a specific date for the termination of such quota; except that a review be made by the Secretary of Commerce ten years after enactment of the Bill. In addition, the authority of the President to negotiate tariff concessions as compensation is extremely limited, and hardly adequate to offset the trade losses sustained by such a safeguard measure.

7. Section 5(c) of the Bill removes the President's authority to reduce textile tariffs in the Uruguay Round or any other trade negotiations below that contemplated under the Bill. These constraints imposed on the President's

negotiating authority will seriously diminish prospects for an international agreement on trade liberalization and hamper United States efforts to gain greater market access for areas such as services, investment, agriculture and intellectual property rights through the Uruguay Round.

8. It is therefore our hope that Congress will continue to exercise leadership of a high order and oppose the new Textile Bill. Passage of such a Bill would be a rebuff to the ASEAN countries which have worked hard, especially among other developing countries, to ensure the renewal of the MFA in 1986 taking into account American concerns, and to launch the Uruguay Round with an agenda that incorporates basic concerns of the United States, such as services, agriculture and intellectual property protection.

For: (EMMANUEL N. PELAEZ)
Ambassador of the Philippines
Chairman
ASEAN Washington Committee

(PENGIRAN DATO PADUKA HAJI IDRISS
Ambassador of Brunei Darussalam

(TOMMY KOH)
Ambassador of Singapore

(SOESILO SOEDARMAN)
Ambassador of Indonesia

(ARSA SARASIN)
Ambassador of Thailand

(ALBERT TALALLA)
Ambassador of Malaysia

TESTIMONY SUBMITTED TO
WAYS AND MEANS SUBCOMMITTEE ON TRADE
BY
THE HONORABLE CASS BALLENGER
MAY 7, 1987

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to express my support for H.R. 1154, the Textile and Apparel Trade Act of 1987. As a Representative from North Carolina, home of more textile-related jobs than any other State in the nation, I urge congressional recognition of the immediate need for this legislation.

The most recent trade figures serve to underscore the dire situation facing our domestic fiber, textile, and apparel industry. For the first three months of 1987, textile and apparel imports rose 4.4 percent over the same period last year, hitting a record-high first quarter level of 3.37 billion square yards. The overall trade deficit was up 16.9 percent over the first quarter of 1986.

How can this be, in light of the fact that the value of the dollar has declined substantially compared to the currencies of other industrial countries? The over-inflated dollar is a factor highly-touted as a major contribution to our trade deficit woes. Unfortunately, the problem and its causes are more complex, involving such aspects as differences in labor costs among countries and non-economic barriers.

An ever-increasing level of productivity, along with continued advancements in the field of textile technology, is the appropriate emphasis now and in the future as we strive for more balanced global trade. A recent special report issued by the Office of Technology Assessment (OTA) documents the 5.6 percent per year (1975-1985) productivity level growth in the textile mill industry, which is more than double that of the U.S. manufacturing industry as a whole. In comparison to textile workers in other industrialized nations, the U.S. claims the highest productivity per employee.

Global competition has forced the U.S. textile industry to close plants and pare the industry to the core, leaving some of the most efficient textile mills in the world. Innovative improvements, such as the industry's Quick Response program, and advanced technological breakthroughs have been implemented at an unbelievably rapid pace. The more efficient the industry becomes, however, the more difficult it is to maintain this pace. Yet imports still threaten to dominate our domestic textile market.

Quoting the OTA report, "While the burden of building a competitive industry rests primarily with industry management, government actions could facilitate the process, or could buy time for textile and apparel firms to make needed changes." Legislation is needed to buy this time. H.R. 1154 is the means by which the government can live up to its part of the bargain in helping America respond to the competitive challenge.

I urge you to take action on this important piece of legislation. Thank you again for this opportunity, Mr. Chairman, and your consideration.

TESTIMONY OF U.S. REP. TOM BEVILL OF ALABAMA BEFORE THE HOUSE WAYS AND MEANS SUBCOMMITTEE ON TRADE ON THE TEXTILE AND APPAREL TRADE ACT OF 1987

MAY 28, 1987

Mr. Chairman, I appreciate this opportunity to submit my views on the new Textile Bill, H.R. 1154. I co-sponsored this bill because I am deeply concerned about the loss of American jobs due to unfair foreign trade competition.

Last year, we had the worst trade deficit ever recorded by any nation in the world. Textile and apparel imports hit a whopping, all-time high in 1986. These imports have had a devastating impact on the domestic textile industry with almost 700,000 American job opportunities lost since 1981.

In Alabama alone, more than 14,000 textile and apparel workers lost their jobs between 1980 and 1985. In the past two years, a number of textile plants have shut down in my district, laying off hundreds of workers. This is a tragedy for those workers and for our economy.

In my opinion, this new Textile Bill will help save American jobs. I think this bill is very fair. It is simpler and more flexible than the bill vetoed by the President last year. And, it represents significant concessions on the part of the U.S. textile industry, while providing a solution to the import problem.

While the bill calls for quotas on textile imports, it does not single out specific countries for restrictive treatment. It should not cause consumer cost increases or retaliation against other American products by our trading partners.

In my view, this bill will help us get a handle on these foreign imports. We all know that quotas and restrictions are a short-term solution. But, we need to give our domestic textile industry a fighting chance.

The U.S. textile industry already is the most modern and productive in the world. However, we are competing with nations that pay their workers as little as 20 cents an hour, subsidize their industries and target the U.S. market for import invasion.

This bill will help our textile industry as it fights to be more competitive with these foreign countries.

I hope we will see some relief given to the textile industry. And, I hope it will be extended to the steel, coal and timber industries which have also suffered from unfair foreign competition.

The bottom line is that we must have a strong domestic industrial base. American jobs depend on it. Our national security depends on it.

When we lose our basic manufacturing industries to unfair foreign competition, we are actually shipping American jobs overseas. When we lose these better-paying jobs, our nation's wealth decreases. When that happens, our standard of living declines. We must do everything we can to make sure that doesn't happen.

I strongly urge the committee's support for this bill.

# # #

Bobbin

Ronald Segal
Chairman and
Chief Executive Officer

March 9, 1987

RECEIVED
MAR 17 1987
SUBCOMMITTEE ON TRADE

The Honorable Sam Gibbons
House of Representatives
Washington, D. C. 20515

Dear Mr. Gibbons:

At the risk of being a heretic, I must applaud your stance with the American Textile Manufacturers Institute and protectionism. The problem that we have is even larger than the mere idea of protection.

The two letters that I enclose herewith will explain that to you. We in the American apparel manufacturing industry are the recipients of the protectionism problem -- both ways.

By that I mean that while protectionism occurs, and desired by the textile industry, the retailers because of the fall-out to apparel, go for imports, either finished goods or start their own operations. If that were not bad enough, the textile industry, while making excellent profits, doesn't serve the apparel manufacturing industry with enough commitment or cloth. I have transcripts, letters and myriads of information from American apparel manufacturers stating so.

When I have my first meeting with my good friend, Butler Derrick, now Chairman of the Textile Caucus, I will try to discuss our perspective of what's happening from the apparel and sewn products view.

Although we are members of the American Apparel Manufacturers Association and support that group, I, in no way, can talk for them. I personally feel strongly that many members support the opinion that I espouse in my two letters; however, that is not their policy.

Bobbin International Inc. P.O. Box 1986, 1110 Shop Road, Columbia, SC 29202 USA 803-771-7500 1-800-845-8820 TWX 810-666-2800 Cable BOBBIN

Mr. Sam Gibbons
March 9, 1987
Page Two

I would certainly appreciate the complete text of your conversations and meetings with Mr. Trogdon. The Congressional record, I'm sure, will have some interesting reading for many of our readers and associates. Our organization is a multi-faceted communications company, and we publish the largest trade magazine in the world for the apparel industry. I'm enclosing a complimentary copy herewith.

I thank you again for keeping up this kind of unpopular work, but you knew when you were elected that popularity contests were not going to be your bag.

Very truly yours,
BOBBIN INTERNATIONAL INC.

RS:fs

Encls.

cc: Dr. Manuel Gaetan, President
Ms. Joyce Santora, Editor-in-Chief
Ms. Jeanine Stepp, Advertising Director

Bobbin

Ronald Segal
Chairman and
Chief Executive Officer

March 9, 1987

RECEIVED
MAR 17 1987
SUBCOMMITTEE ON TRADE

Mr. Mark Vitner
Barnett Banks of Florida
P. O. Box 40789
Jacksonville, Fl. 32231

Dear Mr. Vitner:

I found your recent statements and comments in a recent issue of "Women's Wear Daily" interesting, and I'd like to just get your input. As the world's leading communications and information service for the apparel and sewn products manufacturing industry through our publication and show, we have some problems with your statement. The problems are not with what you are saying, but with some of the "real world" situations.

I have no quarrel with your analysis and perception with the textile industry, its profitability, its employment and its ability to reduce its price vis-a-vis the devaluation of the dollar and the more expensive imports.

My question to you is that if manufacturers have added 10,000 production jobs since mid-1985, and textile earnings are up, why do you think the apparel industry is having its problems?

It is having its problems for the very reasons you state -- the healthy textile industry and its extremely high tech situation. The textile industry has made itself so efficient and highly technical, that it has become inflexible. It has become inflexible to the point where they are not able to, profitably, give many American apparel manufacturers smaller runs so that they can keep sewing. The decision has been made in many companies that the re-tooling for smaller runs would not be profitable.

None of us have any problem with any kind of corporate direction textile companies wish to make; however, we do have a problem when the

Mr. Mark Vitner
March 9, 1987
Page Two

political orientation of these companies still is to protect, and in that protection, many fashion fabrics are caught either between a duty, a tariff or protectionism legislation.

What this means, in essence, is that the American apparel manufacturer, especially in the fashion sector, is deprived of his potential to see these goods and sew them. As I check around the country and speak to lots of people, the largest problem we have is lack of cloth. The cloth isn't available at any price. The foreign cloth can't get in because of political or protectionism reasons, and the American textile manufacturer refuses to share his profitability with the manufacturer by reducing his yardage policy.

The irony of this is that the very textile companies who are limiting the manufacturers here with fashion cloth, are selling the hell out of their own cloth (more commodity-oriented) to the 807 countries.

I understand that you are just an economist, but I thought I'd let you know how, even though it seems cut and dried, it really isn't.

I really would like to get any of your input on this, and even the possibility of an article in our publication. I'm enclosing a recent issue herewith.

Thanking you in advance for your time, I remain

Sincerely,
BOBBIN INTERNATIONAL INC.

Segal

RS:fs

Encl.

cc: Dr. Manuel Gaetan, President
Ms. Joyce Santora, Editor-in-Chief
Ms. Jeanine Stepp, Advertising Director

Say Healthy $ Has Been Boon to Textiles in the '80s

By MARK HONIGSBAUM

WASHINGTON (FNS) — The strong dollar of the early 1980s may have been a "blessing in disguise" for textile manufacturers, according to a new analysis showing steadily rising employment and output levels in the industry.

Since the middle of 1984, output at textile mills has risen 22.5 per cent and there has been a slow but steady increase in the hiring of production workers, according to Mark Vitner, an economic researcher for Barnett Banks of Florida.

Add to these findings the fact that earnings at leading textile firms shot up 94 per cent between 1985 and 1986 and the outlook for the industry looks "very good," says Vitner, particularly now that the dollar is falling.

Ironically, Vitner suggests that one reason textiles now may do well is that unlike other nondurable goods industries, textiles were severely hit by the 82 per cent appreciation in the value of the dollar between 1980 and 1985.

From the beginning of 1984 until September 1985, 64,000 jobs were lost in the textile industry, Vitner says. Since then, 21,000—or nearly a third of those lost jobs—have been restored.

While the employment gains are small, the rises have been steady, coming in 13 months out of the last 16. More spectacular is the 22. per cent increase in output over the same period, which followed a 12 per cent loss in productivity between March and December 1984.

According to Vitner the gains have come as textile firms, under pressure from cheaper, foreign imports, have closed down unprofitable product lines and pruned their front offices, making management leaner.

As a result, textile firms are now operating at a record 95 per cent of full capacity. While Vitner does not expect textile employment to ever return to the record levels of the 1940s, he believes the industry is poised to recover from the slump that has pervaded U.S. manufacturing.

"The strong dollar may have been a blessing in disguise for the textile industry because it forced it to become more competitive," he says. Although he says the industry still has a long way to go before it can compete with Hong Kong, Taiwan and Korea, he believes the falling dollar will allow U.S. firms to capture a larger slice of the world market from their European rivals.

Shipments are up $438 million since May 1985 and inventories are so lean, that any pickup in demand is certain to lead to an increase in output, Vitner says.

Similarly, employment has also been rising steadily in the apparel industry. Manufacturers have also added about 10,000 production jobs since mid-1985, a rise of 8 per cent and output is higher than at anytime since the industry peak in 1984.

In contrast to textiles, earnings at leading apparel firms were down about 24 per cent between 1985 and 1986. The industry is just getting around to massive restructuring, factors which Vitner attributes, in part, to the lessening effect the strong dollar had on apparel manufacturers' ability to compete with imports.

As the falling dollar makes U.S. textiles cheaper than foreign imports, apparel manufacturers should switch to buying more domestically-produced fabrics, benefiting both industries, Vitner says.

Rep. Gibbons Lashes Ou At Hearing on Textile

Continued from Page 1

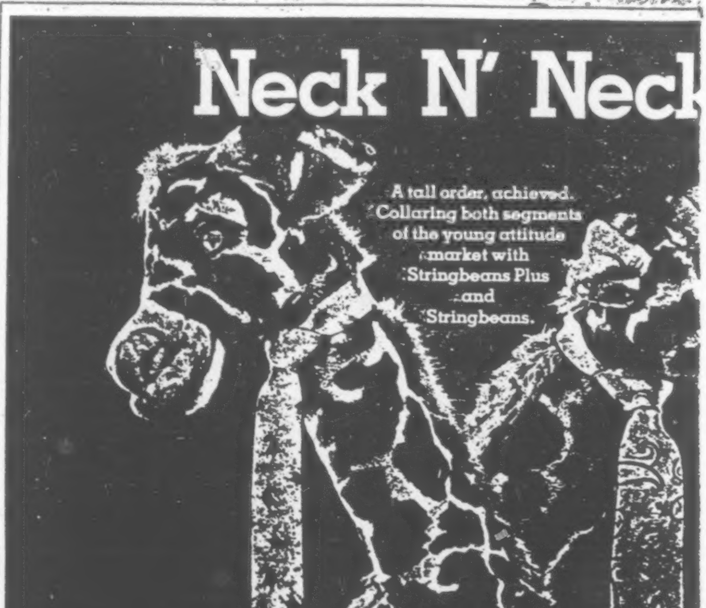
say to the steel industry. Do you really want to socialize America?"

Citing the doubling of textile and apparel imports into the U.S. since 1980, Trogdon urged Congress to pass import relief legislation for those industries. This year's textile-trade bill calls for one global quota on each category of textile and apparel products, from all sources.

But Gibbons wanted to know how long the textile industry expected to be protected. And he wanted to know who would decide which countries would fill the global quotas called for in the bill.

"Do you in the textile industry figure that those quotas are permanent?" asked Gibbons, suggesting that relief for the domestic textile industry would expire in the year 4,000. "Do you really want the Secretary of Commerce to control your industry indefinitely? That's what you're asking for. You've done more to socialize America than anyone I've looked at."

Claiming the textile bill would make the Secretary of Commerce the czar of the clothing industry, Gibbons said the Iran arms controversy would pale in comparison to the graft that could surround the administration of textile quotas.



Bobbin

Ronald Segal
Chairman and
Chief Executive Officer

March 9, 1987

Mr. Stuart Eizenstat
c/o Harvard University, JFK School of Gov't.
79 JFK Street
Cambridge, Ma. 02138

Dear Stuart:

I'm not sure you remember me, but I was on the apparel side on the depreciation problems. You were kind enough to see me several times, and although we never got anything done, you advised me that we wouldn't -- but did listen. I'm writing you because your recent statements as seen in the "Daily News Record" were extremely important and exactly where it's at. The letters enclosed to several of the legislators of our country enunciate the problem, just as you have stated.

The textile industry is not willing to specify and pledge what they will do in order to get these quotas. That means that not only do they keep out needed cloth for our industry (the apparel manufacturing sector), get every country in the world teed off at us, continue to make profits at record levels, and will not make any commitment.

If legislation is enacted that makes import relief conditional upon commitments of benefitting the industries to restructure, then that would be where it's at. The apparel industry is under great stress and enormous problems because the textile industry will not commit to the apparel industry. Whilst it continues to lobby for quotas, and protection, it has no conscience when it comes to the apparel industry. Any additional input or help you can give me on this would be appreciated. Our publication must explain all sides of the story. A recent issue is enclosed.

Best of luck and thanks again -- I know that you will answer me so I'll wait to hear from you.

Bobbin International Inc. P.O. Box 1986, 1110 Shop Road, Columbia, SC 29202 USA 803-771-7500 1-800-845-8820 TWX 810-666-2600 Cable BOBBIN

Mr. Stuart Eizenstat
March 9, 1987
Page Two

Cordially,
BOBBIN INTERNATIONAL INC.

RS:fs

Encls.

cc: Dr. Manuel Gaetan, President
Ms. Joyce Santora, Editor-in-Chief
Ms. Jeanine Stepp, Advertising Director

[illegible]
a:e in an even worse
ding to U.S. textile
manufacturers, who
he same hearing.
). Cordes, president
er Corp., painted a
e of the industry's
petitive position and
future. "In 1987, the
machinery industry
in its weakest struc-
on ever. Most dis-
of all, the future ap-
ık. While U.S.
e more than willing to
r share of the market,
ınder siege from im-
may be simply too
o without an environ-
will allow them to
he told the com-

ited his own com-
dling status: in 1977
the Draper president,
erated on more than
square feet of manu-
oor space and em-
) workers. This year,
only 900,000 square
out 600 workers, he

witness, Ross A.
sident of Leesona
Trafalgar House
his firm's sales had
from $100 million in
million today.
ed that U.S. textile
manufacturers are
ulty competing in ex-
ts as well as in this
To be competitive in
producers must trade
tion of technological
However, the ability
companies to main-
superiority has been
by foreign producers
sed their secure pos-
ed home markets as a
which to develop the
necessary to field their
," Slater said.

;. President

en named president of
owned children's wear
John G. Rowan, who

rations.
officer and executive
nt. Buckley was vice-

m.
boys' fashion sports-
37. The domestically-
te casual pants, over-
n tops. It is available
75 to $12.
or the Eastern part of
or the West, will be in

In Opposing US Imports Bars

By SHADA ISLAM

BRUSSELS (FNS) — European Economic Community (EEC) officials insist that while they will resist any American moves to restrict imports of European textiles, they do not want to start a "textiles war" with the United States.

"Traditionally, industrialized states have steered away from import restrictions on textiles," said one EEC official. "We hope this trend will continue."

While "very concerned" about restrictive trade bills currently being studied by the U.S. Congress, EEC textile experts insist that both sides are reluctant to declare hostilities in the textiles sector.

Possible American moves to restrict imports of textiles from Portugal were discussed in Brussels last week by William Houston, the chief U.S. textile negotiator, and Jean Pierre Leng, his counterpart in the EEC.

EEC officials say both sides have now agreed to monitor trans-Atlantic textile trade to see if the U.S. concerns are justified and if the rise in EEC exports to the United States is likely to continue despite the decline in the value of the dollar.

And the EEC stresses that American textile exports to European markets are also on the way up.

Lord & Taylor Names Thomas F. Quinn Divisional V-P

NEW YORK — Thomas F. Quinn has been appointed divisional vice-president of men's dress and personal furnishings, and boys' at Lord & Taylor.

He will also become a member of the department store's management board.

He had been divisional merchandise manager of those areas since March 1983.

Prior to that, he was managing director of Lord & Taylor's Ridgewood, N.J., store. He joined Lord & Taylor in 1981 as buyer of men's knits.

Quinn will continue to report to Charles A. Zona, senior vice-president and general merchandise manager, men's, boys', and children's.

details further, and also assess any further statements made by the sponsors or others in the U.S.," said Macleod. But he questioned how the bill could be implemented "without abandoning the Multi-Fiber Arrangement and all the bilateral textile agreements so painfully negotiated recently." He added that the bill is a "radical departure" from existing bilateral trade arrangements and destroys "international obligations at the very time when a determined effort is being made in Geneva to do the very opposite and to strengthen the international address compensation on behalf of textile-exporting countries that may be financially damaged by it.

"The bill unilaterally pre-limits the compensation which could be paid, and ignores the fact that if such compensation is not mutally agreed upon then under the GATT, retaliation is the next option available." He said Hong Kong and the United States are currently involved in consultations over the implications of the bill and "how best to combat it."

—*PAUL CHARLES EHRLICH*

Ex-Carter Advisor Doubts Textile Trade Act Will Pass

By JIM OSTROFF

WASHINGTON (FNS) — The prospects for enactment of the Textile and Apparel Trade Act are relatively bleak, given Congress's determination to pass veto-proof trade legislation, said a former presidential aide.

"Probably, there will be an effort to add sectoral relief for textiles to (omnibus trade legislation now being considered by) the House and Senate, but I am confident no such relief will be in the final bill that goes to President Reagan," said Stuart Eizenstat, President Carter's chief domestic policy advisor.

In essence, Eizenstat, an attorney and one of the Capitol's most sought after lobbyists, said Congressional leaders of both parties recognize the Administration's absolute opposition to the revamped textile legislation, with its proposals for mandatory quotas.

Ultimately, the bill, introduced by Rep. Butler Derrick (D., S.C.), "will have to fly on its own, apart from any (omnibus) trade legislation, and I don't believe it will fare any better than last year's" textile-apparel bill, which could not surmount a Reagan veto, he added.

Turning to the overall trade legislation decisions facing Congress, Eizenstat, a veteran of political campaigns going back to the 1960s, said that in the final analysis Congressional leaders will eschew new legislation that mandates the President must retaliate against U.S. trading partners who engage in perceived unfair trading practices.

In assessing the realities of trade legislation, he said last year's Congressional elections demonstrated that protectionism is not a popular issue with voters, "except at the local and perhaps state level." Reagan, consequently, "has a lever over the Democrats, and could paint them as protectionists, in order...to get a (trade) bill that's closer to the White House's liking," Eizenstat said.

Meanwhile, the former White House counselor warned against enactment of any trade legislation that offers relief to specific industries without requiring pledges from that sector to make specific adjustments in their operations.

Specifically, he recalled Carter Administration initiatives to provide protection and business incentives to the footwear and steel industries. "What we had (in 1980) was a government handout to the steel industry with nothing coming back in return to the general public.

"We received no assurances of managerial changes, or changes in (that industry's) capacity rationalization, work rules or wage rates. Instead, it was business as usual with $1 billion of taxpayers money," said Eizenstat, who currently also is a lecturer at Harvard University's John F. Kennedy School of Government.

Consequently, he urged Congress to enact legislation that makes import relief conditional upon commitments of benefitting industries' to restructure, reduce operating costs and adopt more competitive operating plans. The Commerce Department would monitor industry compliance.

The Administration is philosophically opposed to such a quid pro quo and would oppose its inclusion in new trade legislation, Eizenstat conceded.

UNITED STATES
BUSINESS AND INDUSTRIAL COUNCIL

EXECUTIVE COMMITTEE
CHAIRMAN
HARRIS SAUNDERS, JR
Saunders System, Inc
Birmingham, Alabama

RUFUS T. AMIS
R. T. A. Company
Omaha, Nebraska
PAUL H. BROYHILL
Broyhill Furniture Rentals/Sales
Lenoir, North Carolina
FRANK H. BUHLER
Old Dominion Box Company
Lynchburg, Virginia
JOHN H. CHANCE
Boone International Corporation
Centralia, Missouri
JAMES M. DUNAWAY
Thibault Milling Company
Little Rock, Arkansas
H. L. GARDNER, JR
Florida Furniture Industries, Inc
Palatka, Florida
ROBERT H. KRIEBLE
Loctite Corporation
Newington, Connecticut
JOHN F. MALO
Malo Feed Company
Hudson, Colorado
TOM P. McADAMS, JR
Oil Operator
Bristow, Oklahoma
JOE S. MUNDY
Mundy General, Inc
Houston, Texas
ALLEN NIXON
E. C. Barton & Company
Jonesboro, Arkansas
DEAN A. OLSON
Rockford Acromatic Products Co
Rockford, Illinois
CHARLES A. OREM
Bird-Johnson Company
Walpole, Massachusetts
JAMES PAULL, JR
Eagle Manufacturing Company
Wellsburg, West Virginia
JAMES C. QUAYLE
Huntington Newspapers, Inc
Huntington, Indiana
HON. JOE M. RODGERS*
JMR Investments
Nashville, Tennessee
CURTIS L. RYE
S. C. Electric & Gas Co
Columbia, South Carolina
THEODORE G. SCHAD, JR
Lou Ana Foods, Inc
Opelousas, Louisiana
A. D. SCHMIDT
Northwestern Public Service Co
Huron, South Dakota
CLYDE A. SLUHAN
Master Chemical Corporation
Perrysburg, Ohio
TAD STANWICK
Washington, D. C
F. M. STEVENSON
Incentive Investments, Inc
Colorado Springs, Colorado
JAMES R. THOMAS, II
Charleston Renaissance Corp
Charleston, West Virginia
W. L. THORNTON
St. Joe Paper Company
Jacksonville, Florida
H. A. (DAVE) TRUE, JR
True Drilling Company
Casper, Wyoming
PRESIDENT
ANTHONY HARRIGAN
EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER
KIRK C. McALEXANDER
DIRECTOR, GOVERNMENT LIAISON
JOHN P. CREGAN

* on government service

The Honorable Sam Gibbons
Chairman, Ways and Means
Subcommittee on International Trade
House of Representatives
Washington, DC 20515

April 2, 1987

Dear Mr. Chairman:

It is our understanding that you are currently sheduling hearings on HR 1154, the Textile and Apparel Trade Act of 1987.

Our organization requests an opportunity to testify before your subcommittee in support of HR 1154. We believe that we can provide a useful perspective to the panel's consideration of this legislation for the following reasons.

** The U. S. Business and Industrial Council is the only general business group with a stated position of support for import restraints designed to halt the erosion of our textile manufacturing base.

** Our organization has supported such measures since the 1950's and has enjoyed the support of prominent textile industry leaders since 1933.

We have published extensively on the subject of the textile situation and trade in general including op-ed pieces carried in several daily papers nationwide.

Recently our organization moved its headquarters from Nashville to Washington, D.C. As The New York Times recently reported, one of the chief reasons behind that move is to "lobby more effectively on trade" issues.

Thank you in advance for your consideration, and we look forward to hearing from your office when the hearings have been sheduled.

Sincerely,

Anthony Harrigan

Anthony Harrigan
President

POSITIONING AMERICA FOR BUSINESS IN THE '90s

220 NATIONAL PRESS BUILDING • 14th AND F STREETS, N. W. • WASHINGTON, D. C. 20045 • TELEPHONE 202 662-8744

FILED ON BEHALF OF
THE CAMARA NACIONAL DE LA INDUSTRIA DEL CALZADO
(The National Chamber Of Commerce Representing
The Mexican Nonrubber Footwear Industry)

COMMENTS IN OPPOSITION TO THE FOOTWEAR PROVISIONS OF H.R. 1154

I. INTRODUCTION

On behalf of our client, the Camara Nacional de la Industria del Calzado ("Camara del Calzado"), the National Chamber of Commerce representing the Mexican nonrubber footwear industry, we respectfully submit the following comments in opposition to the provisions of H.R. 1154 (Textile and Apparel Trade Act of 1987) which seek to impose a global quota on all imports of nonrubber footwear into the United States. This legislation, as presently drafted, fails to take into account that any injury which the domestic industry has suffered, or is currently suffering, has been the result of imports from the five major nonrubber footwear exporting countries, and by seeking to impose restraints on imports of nonrubber footwear from all sources, regardless of whether imports from such sources have been a cause of injury to the domestic industry, this legislation is unnecessarily broad. Imposing import restraints on countries such as Mexico, which export minimal amounts of nonrubber footwear to the United States, would provide no significant benefit to the domestic nonrubber footwear industry, and would only serve to needlessly exacerbate the already existing tensions prevalent among trading nations today.

More fundamentally, however, we respectfully submit legislation such as this, seeking to protect the domestic industry from import competition, is completely unnecessary and contrary to the national economic interests of the United States. This legislation must be viewed from the historical perspective of the repeated efforts of the nonrubber footwear industry to obtain relief from import competition over the past decade. Such efforts have not helped smaller domestic manufacturers of nonrubber footwear, those most in need of some form of assistance, but instead have served only to provide windfall benefits to major domestic manufacturers, who are quite capable of successfully competing against imported nonrubber footwear. This proposed legislation would have the same effect, and for this reason is unnecessary, as it will no more provide relief to that segment of the domestic industry most in need of it than have prior efforts of the domestic industry to obtain relief.

H.R. 1154

We respectfully suggest that the problems, if any, currently confronting the domestic nonrubber footwear industry can be resolved by the legislation drafted in a much narrower manner than H.R. 1154. As currently enacted, H.R. 1154 fails to differentiate between major exporting countries and countries such as Mexico, which have found small niches in the U.S. market left unfilled by U.S. manufacturers. Legislation carefully crafted and narrowly focused on only exports from those countries which have been the cause of injury to the domestic industry would have the benefit of not exacerbating trade relations with other countries by restricting their exports of nonrubber footwear to the United States. Such exports are often important to the domestic nonrubber footwear industries in these countries, but insignificant in the U.S. market. To restrict exports which pose no threat of harm to the domestic industry would needlessly give rise to trade tensions while not providing any noticable benefit to the U.S. industry. We strongly urge that any legislation enacted by Congress to provide relief to the United States nonrubber footwear industry from import competition be carefully crafted so as not to inadvertently restrain exports of nonrubber footwear from countries such as Mexico, exports which (1) have not been, and are not, the cause of any injury to the domestic industry, and (2) if restrained, would not provide any benefit to the domestic industry.

In fashioning any legislation limiting the importation of nonrubber footwear into the United States, we believe that any relief to be provided to the domestic industry should be implemented in a way which is least disruptive to international trade. With this objective in mind, we believe that limiting imports of nonrubber footwear from the top five exporting countries (Taiwan, Korea, Italy, Brazil and Spain) to either 1985 levels (with minimal growth -- perhaps one percent per year), or to 1986 levels (with no growth allowed), could accomplish this goal. In 1986, imports from these five countries accounted for approximately 90 percent (89.6 percent) of the total value of nonrubber footwear imported into the United States. See Tables 1 and 2. By limiting imports from these five countries, whose exports clearly have been the major cause of any injury suffered by the domestic industry, imports from other countries could then be allowed to enter the United States unrestrained, until they increase to a certain designated level (*e.g.*, 5.0 percent of total U.S. imports and/or 2.5 percent of total U.S. consumption), at which point they too would become subject to restraints on growth.

Alternatively, some type of sliding scale standard could be utilized to impose restraints on all imports of nonrubber footwear, with the degree of restraint being dependent upon a country's share of total U.S. imports or consumption. The following table suggests one form that such legislation could take:

% of U.S. Imports	% of U.S. Consumption	Base Level	Permitted Growth
25+	10+	1985	1.0%
10-25	5-10	1986	1.0%
5-10	2.5-5.0	1986	5.0%
2.5-5.0	1.0-2.5	1986	10.0%
0.0-2.5	0.0-1.0	1986	unrestrained

Dependent upon either the percentage of the value of total U.S. imports or total U.S. consumption, a country's exports of nonrubber footwear to the United States would be allowed to increase a certain percentage a year over its imports in a specified base year. As a country's share of imports or apparent consumption increased, it would be subject to increasingly severe restrictions on permitted growth, although the base year against which permissible growth would be measured would be the year in which a country's exports rose to place it in a new category. The inherent equity and fairness of this approach is undeniable, as it allows those countries, such as Mexico, whose nonrubber footwear manufacturers have found themselves small niches in the United States market, and who have neither the capability nor desire to be a major force in the U.S. market, to sell unhindered therein, while those countries whose manufacturers now have only a small market share, but desire to expand their presence in the U.S. market, will find increasingly severe restraints imposed on their exports to the United States as they obtain a larger share of the market.

Finally, we suggest that if any legislation is ultimately enacted by Congress, it should take into consideration the overall trade in footwear and footwear-related products between a footwear exporting country and the United States. In the case of Mexico, where the value of exports from the United States to Mexico of footwear-related merchandise (hides and skins, leather footwear parts) has historically been around 250 percent greater than the value of nonrubber footwear imported into the United States, restrictions on this trade clearly is not in the national economic interest.

II. THE MEXICAN NONRUBBER FOOTWEAR INDUSTRY

The Mexican nonrubber footwear industry consists of approximately 1,800 producers, mostly very small, producing largely for local consumption. Only a very small percentage (no more than two percent) produce for export. Mexico is not in any sense a major factor in the world footwear market, although it does export its product to not only the United States, but also to several European countries. The vast majority of Mexican nonrubber footwear manufactured for export consist of men's dress and casual shoes, western-style boots, and ladies' sandals, which sell in the middle to upper price ranges of the United States nonrubber footwear market.

Imports of nonrubber footwear from Mexico clearly have not been a cause of any injury to the U.S. nonrubber footwear industry. In 1986, imports of such merchandise from Mexico accounted for only 0.6 percent of total U.S. imports, and 0.4 percent of U.S. apparent consumption. *See* Tables 2 and 3. These figures have remained at these levels for the past three years (Tables 2 and 3), giving credence to the contention of Mexican exporters that they have no desire to expand their presence to become major players in the U.S. market, but desire only to maintain the small niche herein they have found for themselves. While such imports are relatively insignificant to the U.S. industry, they are important to individual Mexican manufacturers, to the Mexican nonrubber footwear industry, and to the Mexican economy.

The Mexican economy, while recovering from the economic crisis of 1982, still remains fragile. The road to recovery has not been easy, as the economic realities of the situation and the desire of Mexico to live up to its international debt obligations have resulted in the Mexican Government adopting an austere economic program which has imposed many hardships on the Mexican people. Mexico's economic recovery in large part is dependent upon its ability to obtain foreign currency, which enables it to import those goods and services needed to keep the economy running, as well as to service its foreign debt obligations.

In 1986, Mexican exports of nonrubber footwear in the United States were valued at $35.9 million, down from $38.1 million in 1984. *See* Table 1. Much of this money was then used by Mexican producers to purchase the necessary raw materials, and machinery and equipment, needed for their operations. These purchases were made mostly from U.S. businesses. In 1984, Mexican nonrubber footwear manufacturers imported hides and skins from U.S. suppliers valued at approximately $110 million for use in the manufacture of footwear sold both for domestic consumption and export. Further, over 12 percent of U.S. exports of semimanufactured leather footwear parts were to Mexican manufacturers in 1984. Thus, continued access to U.S. markets provide benefits not only to Mexican manufacturers, but also to their suppliers, which are most often U.S. businesses.

The continued ability of Mexican footwear manufacturers to sell in the U.S. market without being artificially hindered by import restraints clearly will not pose any threat to the U.S. industry. Indeed, approximately 70 percent of the Mexican footwear exported to the United States is shipped under private brand labels to U.S. retailers, many of whom are also significant buyers and sellers of U.S.-produced nonrubber footwear. These purchasers use the Mexican product to round out their product lines and to increase their overall profitability. Therefore, a significant amount of Mexican-produced nonrubber footwear imported into the United States does not even compete directly with U.S.-produced footwear, but serves segments of the U.S. market which U.S. producers have chosen not to serve.

It should also be noted that approximately 10 percent of Mexican footwear imported into the United States is imported under item 807.00 of the Tariff Schedules of the United States ("TSUS"). (Item 807.00 provides that merchandise imported into the United States which was assembled in a foreign country from U.S. fabricated components is subject to a rate of duty based upon the full value of the imported article, less the value of the U.S. fabricated components.) Such merchandise imported from Mexico into the United States, manufactured from U.S.-made components, is imported into Mexico in-bond and assembled in Mexican facilities (generally along the U.S.-Mexican border), and then returned to the United States. In fact, a number of U.S. domestic manufacturers own and operate such "807.00" facilities in Mexico to take advantage of the lower wage rate in Mexico. This also serves to employ Mexican workers along the border area.

The nonrubber footwear industry is highly labor intensive, giving Mexican manufacturers a comparative advantage over those in the United States. This is one of the reasons U.S. manufacturers find it attractive to invest in "807.00" operations along the Mexican border. Mexican footwear manufacturers also constitute a major source of employment in the non-border areas of Mexico in which they are located. Restricting imports of Mexican footwear into the United States will necessarily lead to a reduction of employment in the Mexican footwear industry both along the border and within Mexico. This will only add to the pool of unemployed Mexican workers, and ultimately, to the difficult immigration situation which exists between our two countries.

It is clear that the imposition of import restraints on non-rubber footwear from Mexico would not only impose hardships on Mexican nonrubber footwear manufacturers, but would also negatively impact on U.S. businesses which in 1984 sold well over $100 million worth of goods to Mexican nonrubber footwear manufacturers. In a purely economic sense, the net benefit -- and favorable trade balance -- from these transactions, *i.e.*, the sale of Mexican nonrubber footwear to U.S. purchasers and the purchase of U.S. materials by Mexican manufacturers, is clearly in favor of the United States. U.S. businesses, in terms of dollars, clearly will lose more than Mexican manufacturers as a result of the disruption in trade which would most likely result if H.R. 1154 is passed in its present form.

III. CONCLUSION

We respectfully submit that the provisions of H.R. 1154 relating to the imposition of global quotas on imports of nonrubber footwear are currently drafted in a manner that is needlessly overbroad. The aim of this legislation, *i.e.*, to provide protection from imports to the domestic nonrubber footwear industry, can be accomplished by legislation drafted to restrict imports from those countries -- Taiwan, Korea, Italy, Brazil and Spain -- whose exports have been the overwhelming cause of any injury, present or historic, which the domestic industry has suffered. Restraining imports from these five countries alone would account for almost ninety percent of total

U.S. imports. The remaining ten percent of imports from all other countries, accounted for by new entrants into the U.S. market or by exporters who have found small niches therein, have not been, and are not, the cause of any injury to the domestic industry. To restrain these imports at their current levels would not appreciably benefit the domestic industry, but would raise trade tensions with countries who see their exports being denied access to the U.S. market.

Given the current tension in trade relations between nations today, it makes little sense to enact legislation which would further strain such relations for no apparent purpose. This is precisely what passage of H.R. 1154 in its present form would do in the case of Mexico, and probably in the case of many of the other non-major exporters of nonrubber footwear to the United States. For these reasons, we respectfully urge that H.R. 1154, to the extent that it relates to nonrubber footwear, not be enacted into law in its present form, and that if the Congress feels that it needs to legislate protection for the U.S. industry, that it do so by carefully crafting legislation which would restrain imports from only these countries which have been the cause of any injury to the domestic nonrubber footwear industry.

Respectfully submitted,

IRWIN P. ALTSCHULER
DONALD S. STEIN
Brownstein Zeidman And Schomer
1401 New York Avenue, N.W.
Washington, D.C. 20005
Telephone: (202) 879-5700

May 29, 1987

7679i

TABLE 1
Value of U.S. Imports of Nonrubber Footwear
1984 - 1986
($1,000)

	1986	1985	1984	% Change 1985-1986	% Change 1984-1986
Taiwan	$2,026,929	$1,684,166	$1,357,247	+20.4	+ 49.4
Korea	1,382,580	990,324	774,103	+39.6	+ 78.6
Italy	900,396	869,504	774,816	+ 3.6	+ 16.2
Brazil	811,476	866,030	853,519	- 6.3	- 4.9
Spain	408,927	416,318	365,560	- 1.8	+ 11.9
Hong Kong	102,264	87,177	70,094	+17.3	+ 45.9
France	97,223	118,982	95,609	-18.3	+ 1.7
PRC	45,477	34,606	22,053	+31.4	+106.2
Yugoslavia	41,873	34,310	27,124	+22.0	+ 54.4
Portugal	36,137	20,936	14,116	+72.6	+156.0
Mexico	35,882	35,773	38,124	+ 0.3	- 5.9
Thailand	33,465	18,752	16,831	+78.5	+ 98.8
Canada	32,334	34,648	33,471	- 6.7	- 3.4
U.K.	28,010	25,916	18,702	+ 8.1	+ 49.8
FRG	24,987	21,534	18,896	+16.0	+ 32.2
All Others	167,394	166,725	171,131	+ 0.4	- 2.2
Total U.S.	$6,175,354	$5,425,701	$4,651,396	+13.8	+ 32.8

Source: Nonrubber Footwear Quarterly Statistical Report, USITC Pub. 1964 (March 1987).

TABLE 2
Major Sources of U.S. Imports
1984 - 1986
($1,000)

	1986	1985	1984
Taiwan	$2,026,929 (32.8%)	$1,684,166 (31.0%)	$1,357,247 (29.9%)
Korea	1,382,580 (22.4%)	990,324 (18.3%)	774,103 (16.7%)
Italy	900,396 (14.6%)	869,504 (16.1%)	774,816 (16.7%)
Brazil	811,476 (13.2%)	866,030 (16.0%)	853,519 (18.4%)
Spain	408,927 (16.7%)	416,318 (7.7%)	365,560 (7.9%)
Total: Five Major Exporting Countries:	5,530,308 (89.6%)	4,826,342 (89.0%)	4,125,245 (88.7%)
Mexico	35,465 (0.6%)	18,752 (0.4%)	16,831 (0.4%)
Total U.S. Imports	6,175,354	5,425,701	4,651,396

Source: Nonrubber Footwear Quarterly Statistical Report, USITC Pub. 1964 (March 1987).

TABLE 3
Imports of Nonrubber Footwear:
Share of U.S. Apparent Consumption
1984 - 1986
($1 million)

	1986	1985	1984
Taiwan	$2,026.9 (20.9%)	$1,684.1 (18.15%)	$1,357.2 (15.10%)
Korea	1,382.6 (14.2%)	990.3 (10.7%)	774.1 (8.6%)
Italy	900.4 (9.3%)	869.5 (9.4%)	774.8 (8.6%)
Brazil	811.5 (8.4%)	866.0 (9.3%)	853.5 (9.5%)
Spain	408.9 (4.2%)	416.3 (4.5%)	365.6 (4.1%)
Total: Five Major Exporting Countries:	5,530.3 (56.9%)	4,826.3 (52.0%)	4,125.2 (45.89%)
Mexico	35.5 (0.4%)	18.8 (0.2%)	16.8 (0.2%)
Total U.S. Imports	6,175.4 (63.5%)	5,425.7 (58.5%)	4,651.4 (51.7%)
U.S. Apparent Consumption	9,720.5	9,282.0	8,989.2

Source: Nonrubber Footwear Quarterly Statistical Report, USITC Pub. 1964 (March 1987).

Canadian Embassy Ambassade du Canada

1746 Massachusetts Ave., N.W.
Washington, D.C. 20036-1985

March 26, 1987

RECEIVED
MAR 30 1987
SUBCOMMITTEE ON TRADE

The Honourable Sam M. Gibbons
2204 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Gibbons:

I refer to the Textile and Apparel Trade Act of 1987 recently introduced in the Congress. As has been repeatedly pointed out by the Administration, most notably on the occasion of the President's veto of the Textile Quota Bill passed by the last Congress, such legislation would have a very serious negative impact on the world trading system. In particular, my Government is concerned that the passage of such legislation would threaten the future of the Multifibre Arrangement as a mechanism to deal with the special circumstances of international trade in textiles, thereby placing further pressure on an international trading environment already jeopardized by mounting protectionism.

Canada also has experienced disruptive levels of clothing imports over the past few years. Thus, we appreciate the circumstances giving rise to this proposal and are aware of the difficulties involved in formulating policies that will address such problems without unduly disrupting Canadian and U.S. bilateral and multilateral objectives. The Canadian Government itself has been under heavy pressure to intensify the border protection currently afforded Canadian textile and clothing industries by imposing a global import quota. On a number of occasions, Canadian Ministers have received representations from their U.S. counterparts with respect to the unfortunate consequences any such Canadian action would have on bilateral trade and on our mutual efforts to resist protectionism and to stabilize and enhance the multilateral trading environment. The Canadian Government has determined that solutions to these problems must be found within the context of an international agreement. However, passage of the textile legislation currently before Congress would make it extremely difficult for the Canadian Government to resist taking action to intensify protection in this area.

.....2

I also wish to emphasize my Government's concern about the negative impact on Canada/U.S. trade that would result from restrictions on Canadian exports under this legislation. The United States has traditionally enjoyed a surplus in trade in textiles and clothing with Canada. This surplus has been maintained in spite of a major decline in the relative value of the Canadian dollar, which has made Canadian exports more attractive in the United States. In 1986, the U.S. surplus amounted to $504 million, on a two-way textile and clothing trade of approximately $1.6 billion. In addition, the proposed legislation would affect Canadian exports of footwear which were valued at $50 million in 1986.

The compensation provided for in the bill is inadequate at best, and could not begin to meet the claims of affected countries, including Canada. Enactment of this legislation, therefore, would force such countries to consider mirror legislation or retaliatory actions that would affect United States exports of textiles, clothing and footwear, and perhaps other products.

More important perhaps than simple bilateral retaliation would be the irreparable damage that the proposed legislation would wreak on the international trading system. It could destroy the MFA and irrevocably prejudice the Uruguay Round of multilateral trade negotiations. Developing countries, heavily dependent on textiles and apparel exports, could not agree to negotiate an opening of their markets to our exports of manufactures, nor could they be expected to cooperate in meeting our objectives in such new areas as trade in services and the protection of intellectual property rights.

Yours sincerely,

Allan Gotlieb
Ambassador

EMBASSY OF THE REPUBLIC OF TRINIDAD AND TOBAGO
1708 MASSACHUSETTS AVENUE, N.W.
WASHINGTON, D.C. 20036-1975

March 12, 1987

Honourable Sam Gibbons
2204 Rayburn House Office Bldg.
Capitol Hill
Washington, D.C. 20510

Dear Congressman:

The beneficiary countries of the Caribbean Basin Economic Recovery Act (CBERA) would like jointly to express our concern about the Textile and Apparel Trade Act of 1987 which has been introduced in the House of Representatives and in the Senate (HR 1154 and S549).

At a time when our fragile economies are buffeted by debt repayment obligations amounting in some cases to 40% of our export earnings, when unemployment levels, especially among the young, have reached 40 to 45%, the efforts of CBI Governments to carry out painful adjustment processes and to maintain our democratic freedoms would be in jeopardy if we could not hope to develop our trade with the United States. This is especially critical in labour intensive areas such as textiles and footwear which provide the greatest potential for easing the social and economic problems of the region as well as maintaining the level of our imports from the United States.

Although we are sure that it was not the intention of the drafters of this legislation, the Bill will have a profound negative impact on the textile and apparel as well as footwear exports of CBI countries, all of which are small suppliers and relatively new entrants to the market.

At the time of the enactment of the CBERA, it was widely recognized that the Caribbean Basin Area was faced with severe economic and political difficulties and that the garment and footwear industries were particularly well placed to generate employment and to alleviate some of the socio-economic problems of the region.

Notwithstanding this, domestic pressures within the United States resulted in the exclusion of textiles and apparel and footwear from duty free eligibility under CBERA.

We are particularly concerned with the following aspects of the Bill:

(1) It violates existing multilateral and bilateral agreements. Contrary to Article 19 of the GATT, the Bill has no termination date. Moreover, it does not require an investigation and factual finding by the International Trade Commission before import relief is granted to United States domestic industry.

(2) It breaches United States commitments to CBI countries and runs counter to the spirit and intent of President Reagan's Special Access Programme. Investments made in good faith on the basis of this Programme are now in jeopardy.

(3) It provides no special treatment for Caribbean Basin countries which in general are small suppliers and new entrants to the market and which must compete with large, traditional suppliers.

(4) CBI countries would be relegated to a position of inferior supplier since they do not have a sufficient base level of exports and the Bill only permits 1% aggregate growth per category per year over 1986 exports.

(5) Several CBI countries import considerably more United States textile and apparel products than are exported to the United States.

The governments of CBI countries hope that the Congress will appreciate the concerns expressed in this letter and the damage which this Bill would do to the economies of countries in the Caribbean Basin.

Yours sincerely,

....
Edmund H. Lake
Ambassador
Embassy of Antigua & Barbuda

Margaret E. McDonald
....
Margaret E. McDonald
Ambassador
Embassy of The Commonwealth
of The Bahamas

Peter D. Laurie
....
Peter D. Laurie
Ambassador
Embassy of Barbados

Edward A. Laing
....
Edward A. Laing
Ambassador
Embassy of Belize

f.
....
Guido Fernandez
Ambassador
Embassy of Costa Rica

....
Dario Suro
Charge d'Affaires
Embassy of The Dominican
Republic

....
Ernesto Rivas Gallont
Ambassador
Embassy of El Salvador

....
Samuel Orgias
Charge d'Affaires a.i.
Embassy of Grenada

....
Oscar Padilla Vidaurre
Ambassador
Embassy of Guatemala

....
Pierre D. Sam
Ambassador
Embassy of Haiti

....
Juan Agurcia Ewing
Ambassador
Embassy of Honduras

Keith Johnson
....
Keith Johnson
Ambassador
Embassy of Jamaica

p.
....
Dominador Kaiser Bazan
Ambassador
Embassy of Panama

Edwards
....
Erstein M. Edwards
Charge d'Affaires
Embassy of Saint Kitts And Nevis

....
Joseph E. Edmunds
Ambassador
Embassy of Saint Lucia

J.O'Neil Lewis
....
James O'Neil Lewis
Ambassador
Embassy of Trinidad And Tobago

U.S. House of Representatives

Committee on Ways and Means

Testimony on H.R. 1154

The Textile and Apparel Trade Act

Of 1987

Of Leslie Alan Glick, Esq.

Partner, Duncan, Allen and Mitchell

Washington, D.C.

On Behalf of Cecil Saydah Company

Los Angeles, California

Mr. Chairman:

I am testifying today on behalf of Cecil Saydah Company of Los Angeles, California. Cecil Saydah Company is both an importer and convertor of towels and has been in business since 1945. Saydah is a domestic industry employing 300 workers with an annual payroll of approximately $5,000,000. At least 75% of the workers are involved in various converting, finishing and processing operations performed on blank towels. These are U.S. workers and are no different than textile workers employed in North Carolina or elsewhere. These workers perform printing, folding, sewing and cutting of towel blanks that are then sold as finished towels. Without the supply of towel blanks to print and convert, these workers would have no jobs. This, Mr. Chairman, is the reason for our being here today, to discuss how H.R. 1154 will adversely impact these U.S. workers and to propose an amendment that will alleviate this situation.

Saydah buys its blank towels both domestically and from foreign sources. It buys all such blanks it can get from major U.S. textile producers such as Fieldcrest/Cannon and J.P. Stevens. The problem is that these companies cannot fulfill Saydah's needs. In fact, they are sold out of blanks until the end of 1987; thus, Saydah cannot buy these blanks domestically. Moreover, companies that produce these blanks in the U.S. also often utilize them themselves for printing and converting their own towels and thus control the supply available to smaller competitors. Moreover, some of the sizes and types of blanks needed are not even manufactured domestically. U.S. manufacturers of these towel blanks often prefer to devote their production facilities to more profitable items. Saydah is then faced with a choice, either to stop producing finished towels because of a lack of supply of blanks, thus eliminating over 250 U.S. jobs, or importing the towels blanks so it can continue to have a source of supply. Saydah has chosen to save these U.S. jobs by importing its blank towels from India, Taiwan, Korea, Portugal, China, and Mexico.

H.R. 1154 would severely limit Saydah's present and future supply of blank towels. These towels are already in short supply and Saydah often has difficulty obtaining enough. This is due to control of these towels under the Multifiber Arrangement and various bi-lateral arrangements. The towels are largely classified under MFA category 363 and to a lesser extent, 369. The number of white towel blanks available for importation is limited. This is because such blanks are generally low value and exporting countries prefer to save their visa allocations for higher value products.

Mr. Chairman, this already difficult situation would be made much worse by the passage of H.R. 1154. We therefore would like to propose an amendment that we believe would save U.S. jobs and not injure any U.S. producers or workers. In converting the imported blanks to finished towels, Saydah adds at least 25% to the F.O.B. imported value and sometimes as much as 100%. Our proposal, which we offer as an amendment to H.R. 1154, would exempt from the quota provisions of the bill imported blank towels imported under MFA 363 or 369 where the domestic value added prior to sale to the first U.S. purchaser is at least 25% of the F.O.B. value. This would be accomplished by a certification process whereby the importer would submit to U.S. Customs an advance certification that the imported shipment was to be printed and otherwise processed in the United States with value added of at least 25% of the F.O.B. value of the imported towel blanks.

Importers would make records available to Customs to inspect and would be subject to fraud penalties for any miscertification. We believe this proposal would save U.S. jobs without any impact on U.S. producers. There are at least five other major converters, such as Saydah, that need to import towel blanks as a raw material, due to a shortage of domestic supply. These include companies in New York City; Dillon, South Carolina; Metuchen, New Jersey; Lake Zurich, Illinois; Hamilton, Ohio; and Monroe, Georgia. These convertors employ over 2000 U.S. workers whose jobs are dependent on imports of towel blanks and whose future will be preserved by the proposed amendment, which we hope you will consider in your mark-up session.

STATEMENT ON H. R. 1154
THE TEXTILE AND APPAREL TRADE ACT OF 1987

BY

DR. JAMES A. CLIFTON
EXECUTIVE DIRECTOR
CENTER FOR INDUSTRIAL COMPETITIVENESS

On behalf of the Center for Industrial Competitiveness (CIC), I appreciate the opportunity to submit this statement to the Subcommittee on Trade of the House Ways and Means Committee on H.R. 1154, the Textile and Apparel Trade Act of 1987.

As a non-partisan, non-profit organization devoted to improving America's industrial competitiveness by revising our century old microeconomic doctrines, CIC does not take positions on specific legislation before the Congress. The purpose of this testimony, instead, is twofold:

(1) to clarify recent questions and assertions concerning the economic health of the U. S. textile and apparel industry;

(2) to compare the consumer costs of this legislation with the consumer costs of the Reagan administration's macroeconomic dollar policy as it has affected, and is projected to affect, the prices of imported textiles and apparel.

Recently, CIC completed an analysis of post war profitability and capacity utilization in the U. S. textile and apparel industry. We also examined long run net investment and import penetration patterns. This research was motivated by the belief that the very short run economic performance of this (or any other industry) is a very poor criterion on which to make judgements concerning permanent legislation.

The complete analysis is available upon request from the Center. Here, the main results are summarized. References are to Figures and Tables in the Appendix to this testimony.

o In the 1980s, U. S. textile profitability has only recovered to where it was in the 1950-1970 period. Textile profitability has improved relative to manufacturing in general primarily because profitability in all-manufacturing has fallen. (See Figure One)

- Capacity utilization, the degree to which plant and equipment are "fully employed", has been equal to or greater than the 1986 rate ten times in the past three decades. (See Figure Four)

- Capacity utilization in textiles is normally higher than in all-manufacturing. For the past four decades on average as measured by the Federal Reserve, capacity utilization in textiles has been 87%, while in all-manufacturing it has been 82%.

- Total available capacity in the U. S. textile industry has fallen six percent since the start of the economic recovery in 1983. That is the primary reason why capacity utilization looks healthy on the surface. (See Figure Five)

- Ever stronger import competition from many new suppliers, and a dramatic increase in imports from China, has forced the U. S. textile industry to downsize dramatically in the 1980s.

- In the 1980s import penetration has increased faster in non-apparel domestic textile markets than in the more traditional area of heavy import penetration, the apparel segment. (See Figure Seven)

- Performance at the margin for new business and new customers is a better gauge of the competitiveness of an industry than is its average performance, which is heavily influenced by old customer ties, long term contracts and the like. Of the 27 percent growth in the total U. S. textile market since the 1982 recession, foreign firms have captured 91 percent! (See Table Two)

- American textile firms did not participate at all in this recovery until 1986. In essence, foreign firms captured all of the healthy growth in the U. S. market --- and then some --- through 1985.

- As is widely recognized, total new expenditures for plant and equipment in textiles, or gross investment, have been strong for some years. This reflects American industrialists' confidence that they can be among the most productive, highest quality producers in the world.

- The trend in net investment, beyond replacement of worn out plant and equipment, peaked in 1981 and has been falling ever since. Net investment in textiles came to a near standstill in 1986, despite improved profitability from higher than average capacity utilization. (See Figure Six)

BEST AVAILABLE COPY

- This is a marked change from normal trends in net investment during economic recoveries, and a complete departure from the rising trend in net investment in textiles that followed the 1974-1975 recession.
- Anemic net investment in the context of growing domestic markets reflects a lack of "market confidence" by the U. S. textile industry. At bottom, it reflects a strong vote of no confidence in the government's administration of trade policy.

There have been many estimates of the annual costs of textile and apparel legislation to American consumers. CIC does not intend to add another independent estimate, but it does feel the Subcommittee should give consideration to the following three limitations surrounding all such estimates:

(1) the reference point for these cost estimates is a perfectly competitive equilibrium entailing free trade between two countries; a more realistic and honest reference point by which to judge the consumer costs of this microeconomic legislation is the Administration's macroeconomic dollar policy, currency protectionism which also entails costs to consumers;

(2) the microeconomic doctrines of competition and price underlying these measurements are a century old; in serious circles within the economics profession, it is widely admitted in private that these doctrines are largely obsolete, particularly in the presence of state directed market economies and strategic competitive behavior by large firms, domestic and foreign;

(3) the inherent weaknesses of microeconomic analysis, in particular its static character, render it very biased as an objective tool for measuring the costs and benefits of protective trade policies over time; dynamic analytical frameworks in economics, notably growth theory and capital theory, recognize the short term costs of protection, but unlike the static supply and demand frameworks used to estimate the costs of protection, also acknowledge that there can be long run benefits which outweigh the costs, benefits which render protection as the best possible policy, not as a seond best to free trade.

The latter two points are areas of continuing study at the Center for Industrial Competitiveness. It is premature to comment further on them in this context. The remainder of our statement concerns the first point about comparative costs.

One of the higher estimates of the consumer costs of textile and apparel trade legislation heard by the Subcommittee on Trade is that prepared by the International Business and Economic Research Corporation (IBERC) for opponents of the bill. The estimates are found in IBERC's Analysis of the Costs of the Textile and Apparel Trade Act of 1987.

How do those cost estimates of this microeconomic "industry specific" legislation compare to the consumer costs of the Reagan Administration's macroeconomic policy of currency protectionism?

In pursuing this question using IBERC data, CIC does not imply any agreement whatsoever with that firm's estimates or methodology. Our intention is to make a conservative estimate of whether the Administration's two year old macro dollar policy is costing consumers more than the microeconomic policy of industry specific legislation would. This legislation was first proposed and passed in 1985, before being vetoed by the President.

For clarity and simplicity, the direct cost comparison of micro vs. macro protective trade policies made here concerns the consumer costs of these alternative policies in the market for imported goods alone.

We do not analyze the welfare implications from higher import prices as they affect the market for domestically produced textiles and apparel, nor do we analyze the welfare effects from the feedback between the domestic and import markets. If the costs of macro protective policy are greater than the costs of micro legislation in the import market alone, then they will also be greater in toto, once these indirect effects are considered.

IBERC estimates the annual import price increase due to textile and apparel legislation as 6.4 percent. How is the impact on imported textile and apparel prices from the Reagan administration's macro dollar policy to be estimated?

Table One indicates import prices for textiles and apparel, when combined as an average as in the IBERC analysis, were very stable between 1984 and 1985 and between 1985 and 1986. However, between 1986 and 1987, import prices increased substantially for both.

TABLE ONE

IMPORT PRICE INDICES FOR TEXTILES AND APPAREL

Year	All Imports (exc fuels)	Textiles	Apparel
1984	103	131	130
1985	99	130	137
1986	105	131	133
1987	113	139	146

SOURCE: U. S. Department of Labor, BLS, March index levels

These import price index data are consistent with what we know to date about the effects of the Administration's macro dollar policy from March, 1985 through March, 1987, namely that it operated with a considerable lag on import prices per se.

First quarter 1987 data indicate the macro dollar policy may just now be starting to have a strong effect. There has been an acceleration in import prices for most broad categories compared to recent quarters.

These patterns indicate price stability in imports preceded the Administration's macro dollar policy, and that the policy, operating with a one year lag, was first seen in the full measure of annual import price changes between March of 1986 and March of 1987. It is now being seen in more permanent measure by the changes in import prices for the first quarter of 1987.

In light of these patterns, we estimate two consumer welfare costs in the import market for textiles and apparel caused by the administration's macro dollar policy. First, from a pre-policy point of price stability in imports, we base one measure of consumer costs on the actual import price increases experienced for the latest available twelve month period, March 1986 - March 1987.

Second, based on first quarter 1987 data, we estimate a 1987 annualized rate of import price increases in textiles and apparel that represents the effect of the Administration's macro dollar policy, and again use the IBERC methodology to estimate the consumer welfare costs associated with that policy of currency protection for this year.

Before presenting the cost estimates, there is one further issue that must be addressed. Some have argued that import price increases may be driven by the large domestic American market for textiles and apparel, rather than by the administration's macro policy.

If so, one would expect to see a pattern of import price increases that approach those of domestic price increases over time with shorter or longer lags depending on how perfectly competitive one believes the American textile and apparel markets to be. The pattern should be one of import prices "catching up" with domestic price increases.

The evidence on this question is presented in Table Two on the following page. It strongly indicates that, if anything, import prices in textiles and apparel have led the way for domestic price increases. The patterns do not at all support the contention that import price increases are being driven by the American market.

Over the two years of the Administration's macro dollar policy, domestic consumer price increases generally and for textiles and apparel in particular have been much less than comparable price increases on imports. Except for the domestic apparel market in the latest period, domestic price prices in textiles and apparel have been below the overall rise in the CPI-U.

In the first four months of 1987, there is evidence that the rate of increase in domestic apparel prices generally is "catching up" with the rate of increase in imported apparel prices caused by the Administraion's macro dollar policy. Both rates are now in the 16 percent range on an annual basis.

TABLE TWO

DOMESTIC AND IMPORT PRICE INCREASES UNDER MACRO DOLLAR POLICY
(Percent Change Per Period)

Period	Import Prices	Domestic Prices
Mar 1985 - Mar 1987		
All items*	14.4	5.4
Textiles**	6.4	3.6
Clothing	6.4	4.5
Mar 1986 - Mar 1987		
All items*	7.3	3.0
Textiles**	5.8	2.1
Clothing	9.1	4.6

* excluding fuel for imports
** textile house furnishings only for domestic

SOURCE: U. S. Department of Labor, Bureau of Labor Statistics, U. S. Import and Export Price Indexes, The Consumer Price Index

In summary, the data in Table Two indicate the macro dollar policy of the administration is consistent with the same cause and effect relationship between import and domestic prices as the estimated effect of the proposed micro quota legislation.

Our estimates of the comparative costs to consumers of H. R. 1154, the Textile and Apparel Trade Act of 1987, and the Reagan administration's macro dollar policy are contained in Table Three, and presented graphically in Figure One.

The consumer welfare costs in the import market for textiles and apparel are higher under the Reagan administration's macroeconomic policy of currency protection than they would be under the industry's proposed microeconomic policy of global quotas, as measured against the IBERC "highball" estimate of the latter.

TABLE THREE

COSTS OF MACRO VERSUS MICRO PROTECTIVE POLICIES FOR TEXTILES AND APPAREL

Policy	Annual Consumer Costs in Import Markets (Welfare Losses in $ Millions)	
H. R. 1154 (IBERC est) (Microeconomic legislation)	3,928.9	
Administration Currency Protection (Macroeconomic exchange rate policy)		
Latest 12 months	4,964.3	
1987 projected	8,989.2	
Assumptions		
Unrestricted import level	3,843.3	million pounds
Import price elasticity	-1.5	
Import cross elasticity	0.3	
Import price increase from:		
micro legislation	6.4	percent
macro policy, BLS data	8.2	"
macro policy, 1987 projected	15.9	"
Micro legislation import level	3,460.0	million pounds
Macro dollar policy import level using IBERC assumptions:		
simulation, latest 12 months	3,351.4	" "
projection, 1987	2,890.2	" "

The Reagan administration's macroeconomic policy of currency protection, using very conservative assumptions, has to date cost American consumers over $1 billion more in import markets alone than the textile and apparel industry's legislation would have.

In 1987, the cost of the administration's macro dollar policy, based on import prices recorded to date, is likely to approach being double the cost of the industry's proposed legislation.

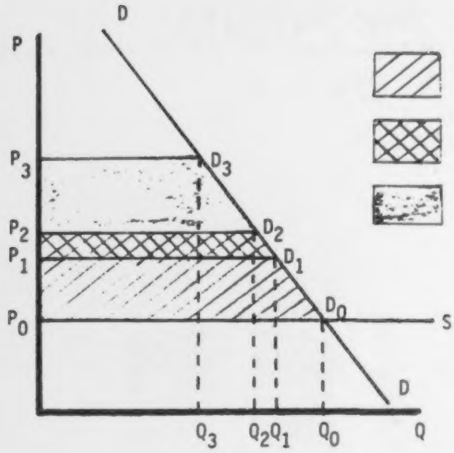
Our analysis calls into question the conventional wisdom that exchange rate policies are inherently less costly than industry specific protective measures such as H. R. 1154. The truth is that both measures are protective policies, and as policy alternatives should be evaluated on the same basis.

In conclusion, CIC believes that if the Subcommittee on Trade feels it must rely on static analytical frameworks for evaluating the costs of industry specific protective legislation over time, those costs should be estimated relative to current policy, not a mythical standard from 19th century micro-doctrine.

Figure One

COSTS OF TEXTILE AND APPAREL IMPORT RESTRAINTS

**Macroeconomic Dollar Policy Vs.
the Industry's Micro Legislation**



▨ - Import market costs of 1987 textile and apparel legislation

▩ - Costs of macro dollar policy to date over and above costs of legislation

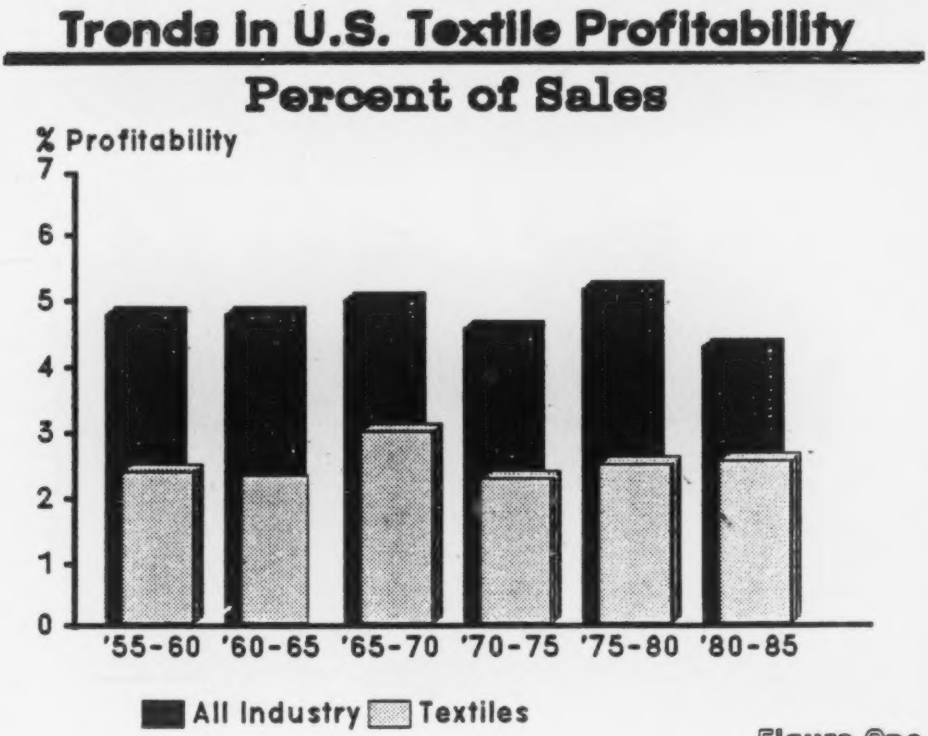
░ - 1987 costs of macro dollar policy, over and above costs of legislation (based on 1st qr import price data)

$P_0D_0D_3P_3$ - total import market costs to consumer for 1987 due to macro dollar policy

$P_0D_0D_2P_2$ - import market costs to consumer for past year due to macro dollar policy

$P_0D_0D_1P_1$ - import market costs to consumer for 1987 due to textile and apparel micro legislation (IBERC estimate)

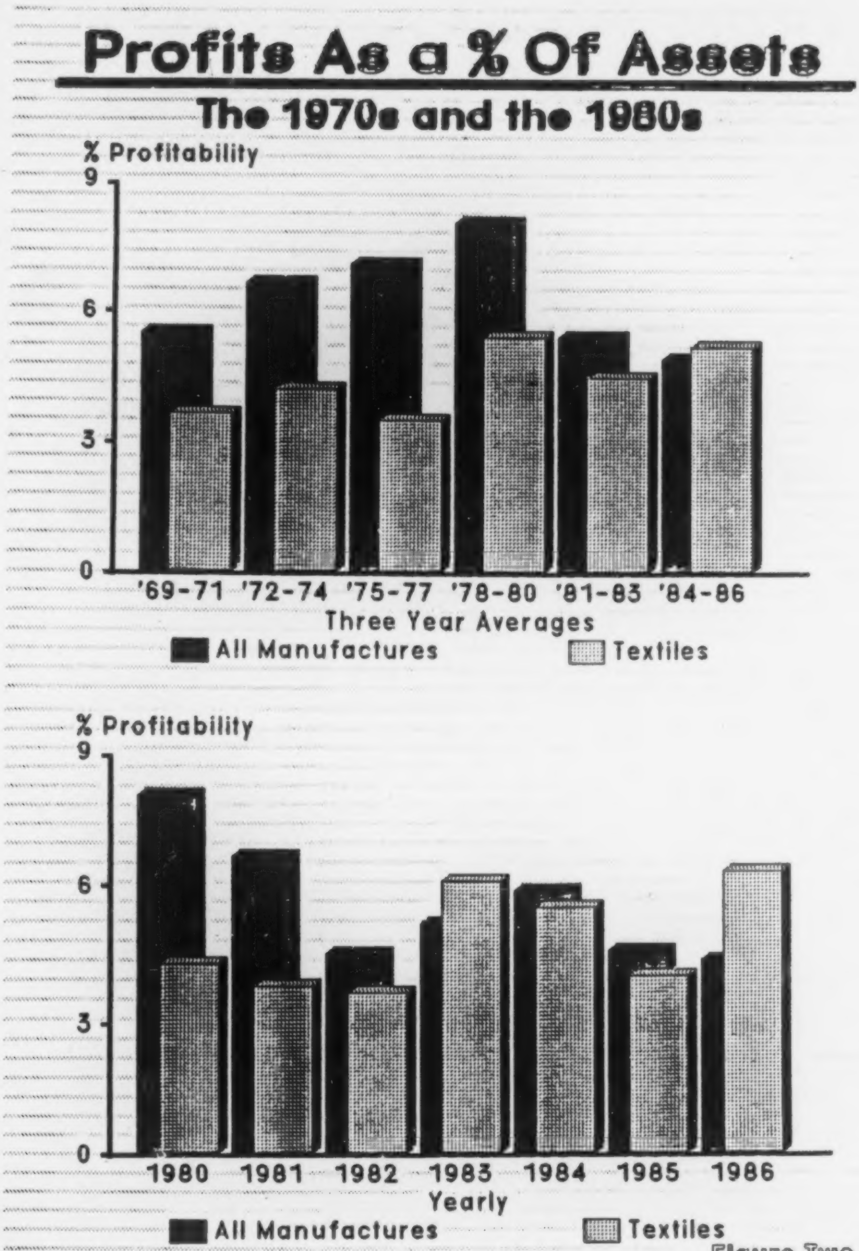
APPENDIX



Trends in U.S. Textile Profitability

Percent of Sales

Figure One



Profits As a % Of Assets

The 1970s and the 1980s

Figure Two

TEXTILE INDUSTRY PRE-TAX MARGIN VS. CAPACITY UTILIZATION

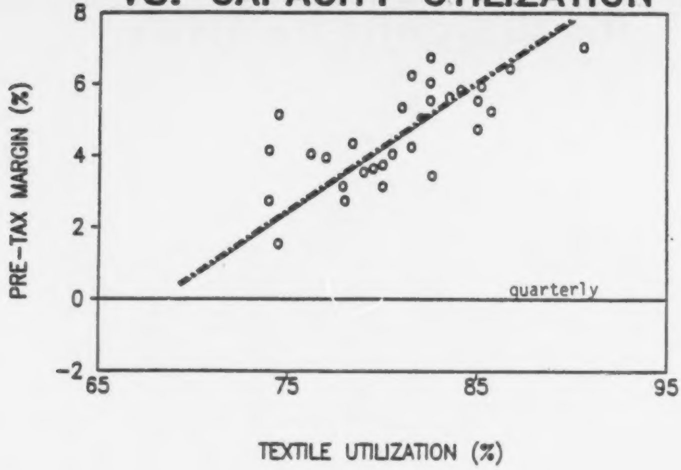


Figure Three

Is Textile Capacity Utilization High?

The Post-War Experience

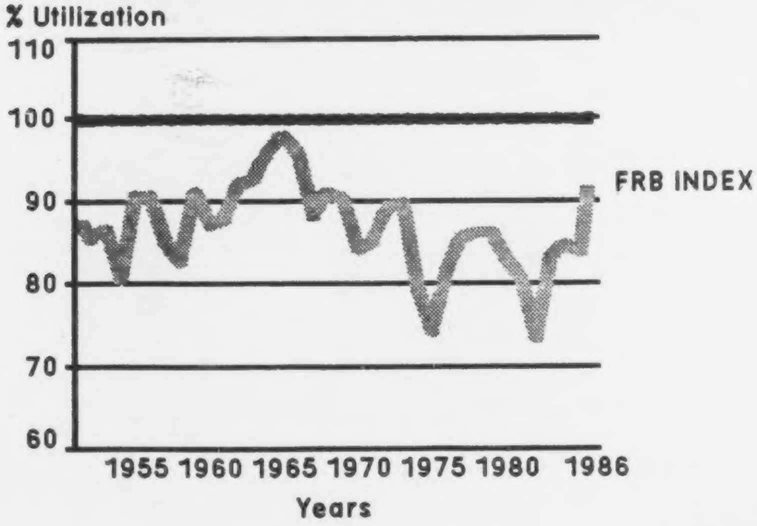


Figure Four

Utilization Rose As Industry Downsized

Smaller, Not Healthier

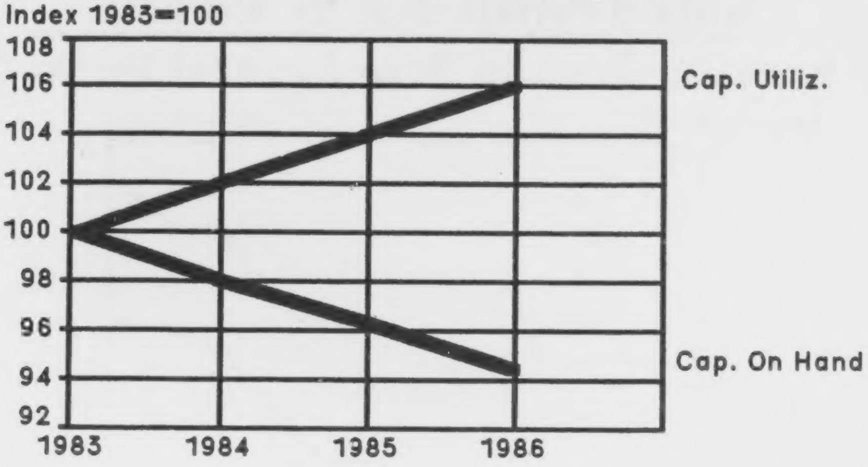


Figure Five

Net Investment In Textile Plant and Equipment

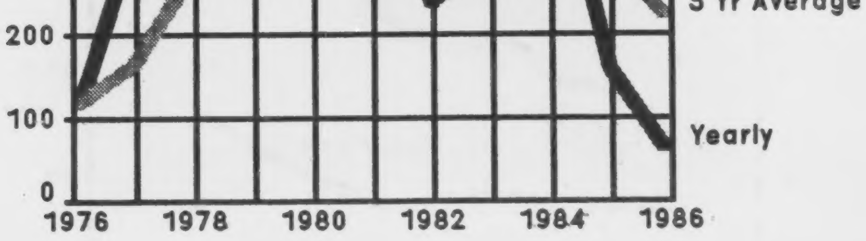
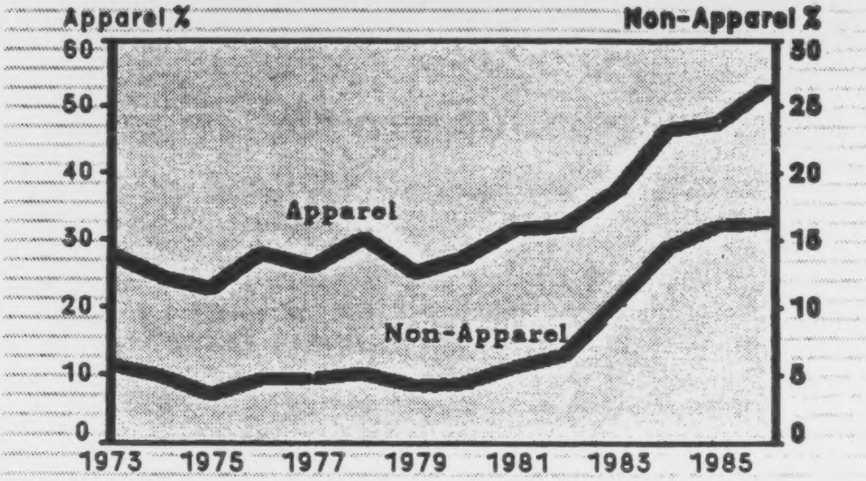


Figure Six

The Acceleration of Textile Imports

Import Penetration By Market

...Surging Even In Non-Apparel Markets

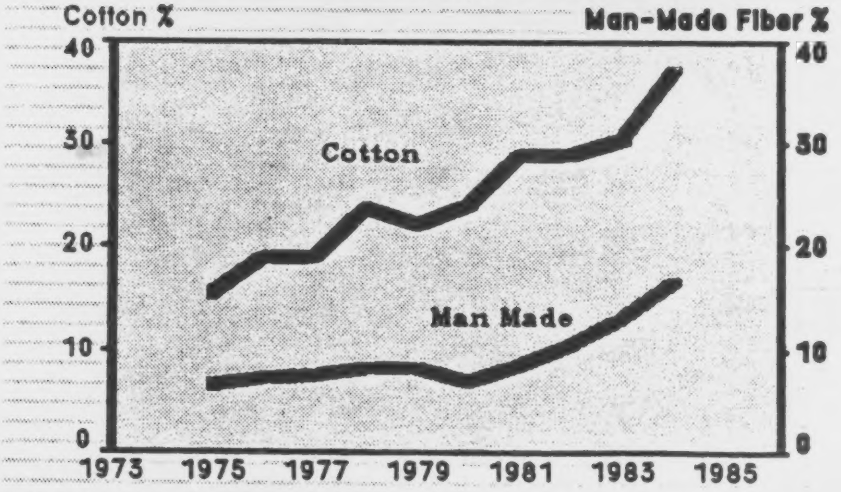


Source: ATMI

Figure Seven

Import Penetration By Fiber

...Also Surging In 1980s



Source: Commerce Dept.

Figure Eight

TABLE ONE

CYCLICAL PEAKS IN U.S. TEXTILE PROFITABILITY AND CAPACITY UTILIZATION

Year	Profitability (% Sales)	Year	Capacity Utilization
1950	5.8	1950	89.6
1955-56	2.6	1955-56	90.8
1959	3.0	1959	91.5
1965	3.8	1965	98.0
1973	2.9	1973	90.1
1979	3.2	1979	86.7
1986e	3.7	1986	91.4

SOURCE: Industrial Output Section, Division of Research and Statistics, Board of Governors of the Federal Reserve System. Bureau of the Census, U.S. Department of Commerce.

TABLE TWO

SHARES OF MARKET GROWTH IN TEXTILES CAPTURED BY U.S. AND FOREIGN FIRMS

Year	Growth in U. S. Market (Million SYE)	Market Share Captured by: U.S. Firms	Imports
	(Total Market)		
1983	2,255	21%	79%
1984	1.426	-71*	171
1985	689	1	99
1986	3.048	39	61
	(Apparel Market)		
1983	722	-57*	157
1984	678	-130*	260
1985	315	-15*	115
1986	1,573	-1*	101
	(Non-Apparel Market)		
1983	1,533	58	42
1984	748	10	90
1985	374	13	87
1986	1,475	81	19

* Minus signs indicate U.S. firms did not capture *any* of the growth in the market segment for that year and lost a percentage of their existing business. Existing business lost is equal to the negative percentage times the left hand column for the appropriate year.

SOURCE: Compiled from "The U.S. Textile Market Measured in Square Yard Equivalents". Economic Information Division, American Textile Manufacturers Institute, Inc., February, 1987.

TABLE THREE

THE EXPLOSION IN "MAJOR SHIPPER" COUNTRY STATUS TO THE U.S. TEXTILE MARKETS

1980		1986	
Total Imports (Million SYE)	4.884	Total Imports (Million SYE)	13,365
Major Shipper	% of Total U.S. Imports	Major Shipper	% of Total U.S. Imports
Hong Kong	16	Taiwan	13
Taiwan	16	China	13
South Korea	14	South Korea	11
Japan	9	Hong Kong	10
China	7	Japan	6
Philippines	3	Italy	4
India	3	Pakistan	3
Pakistan	3	Mexico	3
Canada	3	Canada	3
Mexico	3	West Germany	3
Italy	3	Philippines	2
Singapore	2	Indonesia	2

Other Major Shippers (1980)

Egypt
West Germany
Peru
Dominican Republic
Haiti
United Kingdom
France
Thailand
Macau
Sri Lanka
Colombia
Malaysia
Romania
Costa Rica
Netherlands
Poland
Brazil
Belgium
Portugal

Other Major Shippers (1986)

India
Brazil
Turkey
France
Haiti
Egypt
Macau
Rumania
Peru
Mauritius
Switzerland
Honduras
Panama
Poland
Finland
Thailand
Malaysia
Dom. Republic
Costa Rica
Belgium
Portugal
United Kingdom
Rep. So. Africa
Thailand
Yugoslavia
Jamaica
Austria
Hungary
Ireland
Belize
Uruguay
Barbados
Singapore
Sri Lanka
Bangladesh
Spain
Netherlands
Columbia
Salvador
Greece
Sweden
Nepal
Guatemala
Argentina
Israel

SOURCE: U. S. Department of Commerce. Major Shippers Report, 1980, 1986.

COMPARATIVE MEASURES OF U. S. TEXTILE PRODUCTION

Index Numbers 1977 = 100	1983	1984	1985	1986	% Change 1985-1986
FRB	100.9	103.7	103.2	113.1	9.6
USDA	97	94	97	105	8.2
ATMI	96	92	90	95	6.3
Census	132	137	131	135	3.1
Real Census	101	103	99	101	2.0

Note: The series used for *Figure Five* and in the discussion of production levels in the text is the ATMI series, which falls in between the other estimates of U.S. production.

WRITTEN TESTIMONY FOR THE TRADE SUBCOMMITTEE
COMMITTEE ON WAYS AND MEANS
ON TEXTILE AND APPAREL TRADE ACT OF 1987

PRESENTED BY MARY K. ALEXANDER,
TRADE PROJECT DIRECTOR
CITIZENS FOR A SOUND ECONOMY
JUNE 12, 1987

Citizens for a Sound Economy is a grassroots-supported public policy organization whose 250,000 individual members are deeply concerned about how economic policy affects their lives. We view as especially ominous the recent erosion of the post-World War II bipartisan commitment to free and open trade.

During the last Congress CSE presented its views on textile quota legislation to the Trade Subcommittee. We feel very strongly that textile legislation proposed in this Congress will raise consumer costs and likely lead to retaliation, a trade war, and deterioration of the U.S. economy.

The Textile and Apparel Trade Act of 1987 establishes global import quotas for over 130 categories of textiles and textile products and limits textile and apparel imports each year, for up to ten years, to one percent annual growth. The act would also freeze U.S. non-rubber footwear imports to 1986 levels, allowing no growth. In addition, textile, apparel and footwear duties would be reduced by 10 percent, phased in over five years, as "compensation" to trading partners for the U.S. government's unilateral action against them.

The textile and apparel industries have received protection from the government for more than 200 years, truly institutionalized protection. Through bilateral and multilateral agreements, unilateral government actions, high tariffs, and exemptions from trade liberalizing measures, they are the most highly-protected industries in the United States.

Last summer's renewal of the Multi-Fiber Arrangement among 53 trading partners is the most restrictive MFA ever negotiated. Separate bilateral textile negotiations concluded by the United States in 1986 with many of our Asian trading partners cut back the textile import growth rate by 90 percent and provided for only one percent growth.

The United States still maintains 20 percent average duties on textiles and apparel. These are some of the highest tariffs in the United States, more than four times higher than the average 4.4 percent U.S. tariff. In 1985, 26 percent of the $13 billion in import duties collected by the federal government were assessed against textile and apparel imports.

Finally, textile and apparel articles are specifically exempt by law from the provisions of the Caribbean Basin Initiative and the Generalized System of Preferences, two U.S. programs which provide developing countries duty-free treatment to encourage their economic growth. The textile and apparel industries certainly are major beneficiaries of government protection.

Cost to Consumers

The International Business and Economic Research Corporation (IBERC) estimates the bill would cut imports by 10 percent and increase domestic apparel prices from 2 to 10 percent. The Council of Economic Advisers (CEA) estimates the restrictions imposed by the bill would cost consumers up to $37 billion over five years, and IBERC estimates it would add an additional $10.4 billion annually to consumer costs--$8.1 billion on textiles and apparel and $2.3 billion on footwear. This is on top of the $27 billion additional costs consumers already pay each year because of current tariffs and quotas on textiles and apparel, according to the Institute for International Economics. The Bureau of Labor Statistics projects that apparel prices will increase by 16 percent in 1987 as a result of the new bilateral textile agreements negotiated last year.

The textile and apparel industries are two of the most highly protected American industries. Now they wish more protection and ask consumers to foot the bill. Restrictions on imports of necessities such as clothing and shoes strike particularly hard at low-income groups. Since they spend a greater share of their income on necessities, the burden imposed on this group would be much greater than that felt by others.

With the quantity of imports restricted, foreign manufacturers will naturally pad their profit margins by shipping higher quality--but more expensive--items, denying American consumers the lower-priced products they wish to buy. The substitution of quality and expensive extras for quantity has a precedent in the voluntary automobile restraints with Japan. The proposed textile and apparel legislation creates a hidden, regressive tax which consumers should not be forced to pay.

Effects on Jobs

Thousands of workers' jobs will be jeopardized if Congress passes this legislation. Not only will jobs in retailing, transportation and services be adversely affected, but even some textile jobs saved may be short-lived if imports are cut back.

Jobs in the retail industry represent 18 percent of the U.S. labor force, or one out of five jobs. According to IBERC, while an estimated 47,000 textile and apparel jobs would be protected by this legislation, an estimated 52,000 jobs in retailing which depend on clothing imports would be lost, creating a net decline of 5000 jobs. The CEA estimates that wholesale textile and apparel prices will rise by at least $33,000 for each job "saved," and IBERC projects that consumers will ultimately have to pay $223,000 a year in higher retail costs per job protected.

Retailing jobs that would be lost represent only the first tier of positions that would be affected. Other import-related employment would also decline, including jobs created by importers themselves, stevedores, port services, customs brokers, freight forwarders, warehouses, inland transportation, banks, and insurance companies. The Port of Long Beach, California has estimated that 857,000 tons of apparel cargo valued at $7.5 billion were imported through west coast ports in 1986, directly or indirectly supporting over 100,000 jobs. In addition, United States exports would fall as a result of foreign retaliation and because our country's actions would stifle economic growth in a number of developing countries.

Retaliation

Retaliation is a real possibility, especially with the unprecedented inclusion of the European Community (EC) and Canada in the new textile bill. Although tariffs will be reduced to mollify America's trading partners, the reduction is so small that other countries will still have grounds to restrict U.S. exports under GATT. A 10 percent reduction of a 20 percent U.S. tariff leaves 18 percent, still an extremely high tariff--especially when the reduction is phased in over five years! And with quotas still in effect, this tariff reduction means very little.

The EC has stated that the volume of textile and clothing imports from the United States has increased by 45 percent in the past year. EC clothing imports from Asia have also increased. If the United States attempts to limit its textile imports, thus causing large diversions of Asian products to Europe, "the Community would be obliged...to retaliate against (other) U.S. products," according to EC Commissioner Willy de Clercq. The EC has clearly stated it has a right to retaliate under the GATT, and it most certainly will. Administration officials speculate that U.S. soybeans, other agricultural products, telecommunications, airplanes, supercomputers, and high technology exports would be likely targets for retaliation.

The EC, as well as Canada, has retaliated in the past against a variety of U.S. products. But the easiest target, one where the U.S. is most vulnerable, is the agricultural sector. In 1983 China cut back its purchases of American grain when the U.S. restricted textile imports, costing American farmers an estimated $500 million in lost sales. Taiwan, the largest exporter of apparel following China, is also the third largest importer of American grains, particularly American corn, valued at $1.16 billion. That corn is a sitting duck.

Health of the Industry

The textile industry is not suffering. In fact, it is doing better than many other industries. Unemployment is down in the major textile states, employment is growing, and industry profits are up.

According to recent figures from the Federal Reserve Board, textile productivity grew by 20 percent between the first quarter of 1985 and the first quarter of 1987. Apparel productivity grew by six percent, exceeding the national manufacturing average of five percent. Even the American Textile Manufacturers Institute reports that capital productivity in the textile industry has increased by 51 percent in five years.

Overall unemployment rates in the major textile states are lower than and continue to decline faster than the national average. North Carolina, South Carolina and Georgia are creating jobs faster than the national average. Over the last three years average personal income in the four largest textile states (North Carolina, South Carolina, Georgia and Alabama) grew 11 percent faster than the national average and nearly 40 percent faster than their own 1977-1980 average.

Employment in the textile industry is on the rise. According to the Bureau of Labor Statistics, textile employment has grown by 20,600 jobs in the past year. Labor productivity, growing at an annual rate of 2.7 percent since 1975, has accounted for most of the decline in employment in the apparel industry over the past years.

In fact, apparel manufacturers even state they are having problems hiring labor. The president of Piedmont Industries in Greenville, South Carolina admits, "competing for manual labor is getting tougher and tougher in Greenville because of the low unemployment rate...Other industries have taken our (sewing machine) operators." An official from Her Majesty Industries says diversification of industry in the Greenville area and the entrance of such companies as Michelin Tire Corporation and Union Carbide Corporation, which pay higher wages than apparel companies, are two reasons for the struggle. He added, "another reason, which may be imagined, is that I just don't think people want to sew anymore."

Alternatives

To the extent that U.S. textile and apparel companies have trouble meeting foreign competition, general U.S. economic policies are largely to blame. High levels of corporate taxation and regulation prevent the textile industry as well as other industries from being more competitive. A sound U.S. monetary policy can reduce real rates of interest and the cost of borrowing capital. Disincentives for saving should be eliminated so that more capital is available for plant modernization. Above all, the federal budget deficit, which the Congressional Budget Office predicts will top $170 billion this year, must be brought under control in a manner that genuinely leaves more money for private sector investment--in other words, through spending reductions or a spending freeze, not through tax increases.

Conclusion

The textile and apparel industries need to be able to change to meet consumers' changing needs. Pending textile legislation sets into concrete the current mix of clothing types, precluding importers from satisfying future changes in consumer demands and lessening competitive pressure on domestic firms to do so. How can clothing merchants react to changing consumer desires if this legislation in essence freezes the present consumption patterns of buyers? Like the dinosaurs that couldn't adopt to a new environment, the textile industry is creating its own peat bog.

We cannot have both robust economic growth and protectionism. We cannot strengthen American industry by weakening competition. The best protection for people who are faced with the task of adjusting to new conditions is a thriving, competitive economy which vigorously produces new opportunities and the best goods at the lowest prices.

JAMES McCLURE CLARKE
11TH DISTRICT, NORTH CAROLINA

COMMITTEE ON INTERIOR AND
INSULAR AFFAIRS

COMMITTEE ON
FOREIGN AFFAIRS

SELECT COMMITTEE ON
AGING

Congress of the United States
House of Representatives
Washington, DC 20515

217 CANNON HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
(202) 225-6401

ONE NORTH PACK SQUARE
SUITE 434
ASHEVILLE, NC 28801
(704) 254-1747

301 WEST MAIN STREET
SPINDALE, NC 28160
(704) 286-4880

319 WEST MAIN STREET
SYLVA, NC 28779
(704) 586-6821

Statement
of
CONGRESSMAN JAMES MCCLURE CLARKE
of
North Carolina
before the
House Ways and Means
Subcommittee on Trade
Washington, DC
Thursday, May 7, 1987

Mr. Chairman and members of the subcommittee, thank you for the opportunity to testify about an industry which is important to my district, my state, and our country. For many years the textile industry has made important contributions to the American economy. Textile plants have employed several generations of Americans and have provided a wide range of products for consumers and for national defense. As North Carolina's top industry, textile workers make up nine percent of the State's workforce and 36 percent of all manufacturing jobs in North Carolina.

Unfortunately, our record trade deficits have hit the textile industry harder than many areas of the American economy. Since 1980 textile and apparel imports have more than doubled, with the deficit for these products climbing to record heights each successive year. In 1986 the textile and apparel deficit topped $20 billion, which represents more than 12 percent of the country's entire merchandise trade deficit. At the same time, 21,000 North Carolina textile workers lost their jobs in 1984, representing a loss of $254 million for the State's payroll. On the national level almost 1,000 textile plants have shut down, and imports now control more than half of the U. S. market for apparel and apparel fabrics.

Despite this tidal wave of imports flooding our shores, the American textile and apparel industry has aggressively invested in new technology, in an effort to combat the lower wage rates of many other countries which produce textiles. Our domestic industry leads the world in modernization, reinvesting 80 to 85 percent of its retained cash flow. By spending an average of $1.7 billion per year on new equipment, the industry has now retooled 70 percent of its facilities within the past ten years. We can be proud of the competitiveness of our textile industry, which is the most modern and productive in the world.

Many experts believe, unfortunately, that this reinvestment will not be sufficient to counter the unfair trading practices of many foreign competitors and the growing tide of imports which results from these practices. While the United States is currently involved in numerous multilateral and bilateral agreements which govern the level of imports and unfair trading practices, enforcement of these agreements has been weak. I believe that the domestic textile industry and the United States as a whole need much more strict enforcement of the existing trade agreements.

Although the list of trade agreement violations by other countries is very long, in this testimony I will describe only the most dramatic examples. Under the Multi-Fiber Arrangement (MFA), textile and apparel imports were to rise at a 6 percent annual rate during the 1980's. Our country's textile imports grew, however, by 30 percent in 1983 and 32 percent in 1984, before falling to 7 percent in 1985. Similar violations also occurred in many bilateral agreements.

Foreign countries fail to comply with our trade agreements for a variety of reasons, but one of the most important factors seems to be the Administration's weak enforcement of these agreements. Repeatedly, the Administration has shown a striking lack of commitment to the American textile industry. In 1985 Senator Ernest Hollings (D-SC) described a classic example of weak enforcement, involving a bilateral agreement with Thailand:

> In 1984 and 1985 Thailand overshipped apparel to the tune of almost 30 million square yard equivalents. This overshipment was not discovered by the Department of Commerce until August of 1985, at which time, Thailand had shipped in [to the United States] apparel for 1985 already filling 82 percent of their 1985 quota. According to the office of our chief textile negotiator, Ambassador Carlisle, 'Frankly, the system did not work...It was inadequate.' That is an understatement. After discovering illegal massive shipments in mid-August, apparel shipments from Thailand were finally embargoed on October 8th. Negotiations with the Thais were begun. These negotiations are now completed and I understand from Ambassador Carlisle's office that the embargo will be lifted one month prematurely on December 1st. This will enable the U. S. importers to get their goods our of embargo in time for the Christmas season. The embargo will be lifted even though the Thais overshipped in 1984 and are probably going to be over their quota in 1985.

The weak enforcement of existing trade agreements has also encouraged the proliferation of "transshipments," which involve sending products through another country to evade our import quotas. In particular, Canada has served as a "pass-through point" for many products from the Far East. If the United States negotiates a free-trade agreement with Canada, this problem could become much more serious, as the elimination of duties makes transshipment even more attractive.

By relying upon transshipments and other unfair practices, many foreign countries have managed to evade negotiated rates of import growth. In a report published in April of 1985, the House Energy and Commerce Committee describes widespread quota violation and evasion:

> Examples included shipments of young men's sportswear from Hong Kong, China, and the Philippines for nearly 5 years by means of false documents; 1,700 dozen pairs of Taiwanese jeans falsely claimed as having been manufactured in South Africa; a Taiwanese importer sewing shirts and skirts together and entering almost 10,000 dozen of them as dresses, which had a lower duty rate and larger quota. The importer admitted the items were separated after entry and sold as shirts and skirts.

In a similar vein, a recent story by the Associated Press describes how millions of dollars in textiles and clothing from China enter the United States under counterfeit visas. According to the article, the Chinese already have exceeded U. S. quotas on

13 categories of textiles and apparel, and the goods flowing into this country under counterfeit visas could cause China to exceed limits in other areas by the end of June.

Foreign countries are frequently able to evade agreements and quotas because the Customs Service lacks adequate personnel to monitor closely imports to this country. Although the Treasury Department requested additional customs personnel to limit quota evasion, the State Department refused to authorize the additional personnel. While customs agents currently inspect only about 2 percent of the products entering the United States, the agents usually earn two to three times their salary in tariffs collected.

A House subcommittee is also investigating charges that in trade negotiations the Customs Service has provided inaccurate figures on import levels. Congressman Doug Barnard, Jr., Chairman of the Commerce, Consumer, and Monetary Affairs Subcommittee, is leading an investigation of industry complaints that government reports on imports are often late and frequently inaccurate. According to Congressman Barnard, our negotiators "are often embarrassed and frustrated by their inability to have current and accurate data on shipments of quota items. In fact, we are informed that it has been necessary to revise several quota calls in the recent past because the original call was based on inadequate data." One Customs source claims that during the height of the textile negotiations last year, three major U. S. ports were so delayed with entries that import reports were two to three months behind schedule. Only when Customs reassigned agents from inspection to entry checking did the reporting return to schedule.

This lack of funding for the Customs Service suggests a broader policy that lacks commitment to the textile industry. The Administration's "free trade" policy has meant weak enforcement of existing trade agreements and corresponding difficulties for the textile industry. The Office of Technology Assessment recently reported that "[e]ven though the textile industry has filed a series of countervailing duty cases against several countries, the Administration negotiated agreements to suspend most of those duties." Under the MFA the Administration has been generous in negotiating and enforcing quota agreements. In the renegotiation of the MFA in 1980, the United States reached an agreement with 30 countries to limit growth of American dextile imports to 6 percent per year. The Administration has not enforced this agreement, allowing textile imports to increase an average of 19 percent each year. Most recently, bilateral negotiations with India, the Philippines, and other countries resulted in enormous increases in guaranteed access to our markets by those countries' textile industries.

The Administration has been extremely hesitant to embrace a policy of stronger enforcement, claiming that free market forces will resolve any temporary trade imbalances. A central tenet of the Administration's trade policy has been the falling dollar. Theoretically, a decline in the dollar's value would make imports to our country more expensive and our exports to other countries less expensive. Unfortunately, this theory seems to have little practical application for American industry, particularly for the textile industry. While the dollar has declined over 50% in value against the Japanese yen, the American trade deficit with Japan continues to soar to record levels. American textile imports from Japan increased 14 percent in 1986, despite the falling dollar. Furthermore, the value of the dollar has not dropped against the currencies of the developing countries, which account for more than three quarters of textile imports.

The Administration's textile trade policy seems hypocritical. I have already described at length the flood of imports and the numerous plant closures caused by the weak enforcement of existing trade agreements. At the same time that the textile industry is facing severe difficulties, the Administration correctly views the industry as important for our national security. According to U. S. Trade Representative William Brock, "Every U. S. industry insists it is essential for national security. Textiles is the only one we accept, and that goes back 20 years." After rejuvenating the American military forces over the past six years, the Administration threatens the continuing strength of those forces by providing only weak support for the American textile industry.

Mr. Chairman, I have described at great length the importance of the textile industry for the United States, in terms of jobs, revenue, and national security. For the past six years the Administration has not enforced trade agreements involving this industry, and this lack of enforcement has caused serious problems for the industry. In an effort to remedy these problems, I am joining 219 of my colleagues in cosponsoring H. R. 1154, the Textile and Apparel Trade Act of 1987. This legislation will force adherence to existing trade agreements, by establishing import quotas for each category of textiles, textile products, and nonrubber footwear. Each nation's quota is based on the level of imports in that category for the year 1986. Each country's quota grows by 1 percent each year, consistent with the long-term growth trend of the domestic market. H. R. 1154 gives the President flexibility to engage in any bilateral agreements to enhance the status of any trading partner when it is deemed in the national interest to do so. While providing this flexibility, the bill ensures that the textile industry will not suffer from weak enforcement of trade agreements.

In a recent report on the U. S. Textile and Apparel Industry, the Office of Technology Assessment concluded that transformation of the American textile and apparel industries lies with private investors and managers, who must guide their companies through a period of "unprecedented" change. The efforts of those persons alone are not enough, however, OTA declared, adding that "unless public policy action is taken in the next few years, there is reason to be concerned about the very existence of many parts of the industry."

In order to avoid this outcome, Congress must act now to help the textile and apparel industry, an essential sector of the American economy. We must pass the Textile and Apparel Trade Act of 1987.

Mr. Chairman, thank you for this opportunity to present my views.

TESTIMONY OF THE HONORABLE HOWARD COBLE

Mr. Chairman, I thank you and your colleagues at the Subcommittee on Trade for allowing me this opportunity to testify on behalf of H.R. 1154, the "Textile and Apparel Trade Act of 1987." In more human terms, I am testifying on behalf of the two-million people employed in the textile and apparel industries who want to keep their jobs. My comments will be brief, but I do wish to touch on certain points which are germane to the current congressional debate over this bill.

First, in the wake of H.R. 3, which the House recently passed, why a new textile and apparel bill? Isn't the omnibus trade bill enough? Regrettably, Mr. Chairman, it is not. H.R. 3 has merit, but its broad-brush approach to unfair trade and domestic competitiveness will not help the textile and apparel industries now. Besides, it makes little sense to suggest that legislation emphasizing, among other things, the importance of research and development will act as a panacea for textile and apparel manufacturers who already spend $1.7 billion a year on new equipment. We are not talking about antiquated industries which have refused to cut costs and modernize.

Further, we have heard much talk of late concerning the devaluation of the dollar. Some contend that this development by itself will significantly reduce our trade deficit. This notion has little, if any, application to the textile and apparel industries, since the countries which most threaten them tie their currency valuation to the dollar.

In short, Mr. Chairman, the problems plaguing the textile and apparel industries are not self-inflicted. The real problems lie elsewhere -- overseas -- and may be stereotyped in most instances as follows: We hold ourselves to a relatively high standard of trade conduct which is premised on fairness and accessibility, while many of our trading partners ignore this standard altogether.

Examples are numerous and well-documented. For those of you desiring more details, I recommend the recently-released publication by the Office of Technology Assessment. This document and a wealth of other studies clearly indicate that several countries have used tariffs, quotas, import bans, tax incentives, and other industry subsidies to acquire a significant foothold in our domestic markets. Comparable domestic protection is obviously needed, but present efforts are just as obviously inadequate.

Critics of H.R. 1154 cite recent domestic profits and existing plant-utilization figures as evidence of new prosperity. These data are skewed, mainly because 1985 was such a depressed year by comparison. The hard facts are these: Since 1980, the American textile and apparel industries have lost 350,000 jobs and 700,000 job opportunities. Nearly 1,000 plants have closed. There is no evidence that this pattern will abate unless we change our policies.

Mr. Chairman, we must decide if certain core manufacturing industries are worth maintaining in this country for reasons involving economics, security, and fairness. Is the largest manufacturing industry in the United States -- larger even than auto and steel combined -- worth saving to allow its workers to remain self-sufficient? Should we ensure that our armed forces remain adequately clothed and equipped with textile and apparel goods in the event of war? Should this legislative body lend a hand to men and women who earn $6.00 an hour for honest work, but who are forced to compete against overseas labor valued at 20 cents an hour? My answer to these questions is an emphatic "yes."

I thank you for your time and consideration, Mr. Chairman, and again urge you and your collegues to do what is right and fair: support passage of H.R. 1154.

Howard Coble

HOWARD COBLE
Member of Congress

Comments of Ralph A. Biedermann
Chairman, Committee for Production Sharing
for the Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
on the Textile and Apparel Trade Act of 1987

Mr. Chairman and members of the Subcommittee, I would like to thank you for the opportunity to present comments on H.R. 1154, the Textile and Apparel Trade Act of 1987. I am the Chairman of the Committee for Production Sharing, an association of 140 member firms using, or supporting the use of, production sharing. I am also President of my own firm, The MRB Group, a public affairs and government relations company based outside of Chicago, Illinois.

The Committee for Production Sharing was founded eleven years ago as the Committee for 806.30 and 807.00, Inc. As you know, Mr. Chairman, those Tariff Items refer to the dutiable status of **American goods returned,** after having been advanced in value abroad. Two years ago the Committee changed its name and broadened its mission to encompass the contribution to U.S. competitiveness from 806.30/807 operations and similar contributions through the Caribbean Basin Economic Recovery Act (CBERA) free trade arrangements and the use of the Generalized System of Preferences (GSP). We believe that production sharing provides U.S. firms with a constructive option for meeting the growing competition from foreign producers.

During the course of these hearings, you have received testimony from a number of witnesses who have had strong feelings about the proposals contained in this bill and the state of the textile, apparel and footwear industries. Certainly, domestic companies have been faced with increased penetration of their markets by foreign firms. And just as certainly, this import penetration has caused dislocation and adjustment within the economy. However, there is a middle ground between complete protection of the industry, which economic history has demonstrated over and over causes inefficiencies, and complete free trade, where America becomes the dumping ground for foreign competitors that take advantage of our relatively open markets while protecting their own infant industries. This middle ground includes production sharing.

The growth in the size of our trade deficit over the past five years and some of the strong trade remedies being proposed leave no doubt that American industry faces a difficult task in regaining its competitive edge in the world market. The level of industrialization in developing nations continues to increase, creating not only new manufacturers of goods, but new marketers as well. U.S. producers face keen competition in this market and in export markets. The "name of the game" in this new marketplace is to ensure profitable survival through maximizing customer value: providing the greatest quality at the minimum possible end item cost.

Many solutions to America's trade problems have been proposed over the past months. While no one claims to have the whole answer, the firms of our association have found an alternative to the either/or situations frequently proposed. To paraphrase a slogan used by our Committee, neither protectionism nor free trade is a viable alternative for reducing the trade deficit while simultaneously forcing U.S. firms to address the question of increasing performance and lowering costs. I suggest that production sharing can offer U.S. manufacturers the alternative of maintaining their markets and improving their competitive position.

Production sharing can be viewed as an extension of the concepts of international division of labor and comparative advantage, where producers in one country share aspects of the production process with foreign affiliates or contractors in another country, in order to achieve greater efficiency and cost effectiveness. By combining U.S. content and technology in partnership with developing country labor skills and factor costs, U.S. firms can reduce their overall product costs, which can in turn improve both their market shares and their competitive position. **And it must be emphasized that in such a process, U.S. firms maintain control of their business operations, their proprietary and patent rights, their technology, and their operating bases.**

Most importantly, however, production sharing operations almost always use the quality, technological output, and high-skilled jobs of American firms. **The design, development, manufacture, marketing, distribution and servicing functions are all still performed by the American firm with American workers in U.S. plants.**

The concept of production sharing has been very important to the development in the U.S. textile and apparel industry. Between 1982 and 1985, the value of textile imports under Tariff Item 807.00 increased from $650 million to $1.2 billion. Of this $1.2 billion, $723 million, or **62 percent of the total value of textile/apparel imports under Item 807, was U.S. content.** These figures were compiled by the U.S. International Trade Commission in its December, 1986 report "Imports Under Items 806.30 and 807.00 of the Tariff Schedules of the United States, 1982-1985."

It is this growth in production sharing in the textile/apparel industry that I would most like to emphasize. H.R. 1154 makes no provision for addressing the status of Item 807 imports under the proposed new regime for controlling import growth. I would like to propose that Item 807 imports be excluded from the one percent quota growth restriction mandated in this legislation. Furthermore, I would like to propose that the U.S. content of schedule 8 imports be excluded from bilateral quota limitations altogether.

These proposals follow, I believe, logically from the basic premise on which the so-called "drawback" tariff provisions are based. Goods entered under Item 807 are given a customs duty "credit" on the value of the U.S. content. In other words, the provisions of Tariff Item 807.00 give an incentive for the use of U.S. content in articles assembled abroad, as opposed to importing a wholly-foreign equivalent. Because U.S. content continues to be used, U.S. workers are retained in their jobs and U.S. companies flourish against their foreign competition.

Given the benefits that accrue to the U.S. textile and apparel industry - $723 million in product value in 1985 - from the use of the production sharing option and Item 807.00, it would seem counterproductive to limit its use by subjecting 807.00 textile and apparel imports to the same growth restrictions that apply to wholly-foreign products. By doing so, benefits to the U.S. economy and to U.S. producers of U.S. content would be restricted as well, in that the process of using textile materials cut into components for foreign assembly into articles of apparel and other textile products would face growth limitations. Instead of curtailing the use of U.S. content, companies should be encouraged to increase their use of U.S. content through the knowledge that they will not be faced with quota restrictions.

But it is important to remember that the benefits of production sharing are not confined to U.S. firms and workers. Production sharing also plays a significant role in the economies of developing countries, lending credence to "trade-not-aid" theories of world economic growth. By providing conditions favorable to the establishment of production sharing operations, the U.S. government and the governments of developing countries leave a positive impact on these countries in five important areas: technological growth, employment generation, increase in the standard of living, debt service, and the development of entrepreneurial and managerial classes. In these times of shrinking foreign aid budgets and foreign debt crises, such development well serves U.S. foreign policy interests, yet it consumes no foreign aid. Moreover, these production sharing plants are utilizing U.S. materials and not foreign materials.

Production sharing has been of particular importance to the economic development of some of our closest hemispheric neighbors: Mexico and the countries of the Caribbean and Central America. Curtailing the ability of these countries to attract assembly operations could also negatively affect the ability of these democratic governments to develop their economies, earn foreign exchange, and repay their debt to U.S. and international lending institutions.

In Mexico, for example, 807.00 imports of textiles and apparel in 1985 totaled $180.5 million. Of this, $132.6 million, or **73 percent, was U.S. content**. In 1986, 807.00 textile and apparel imports totaled $202 million, with $147.6 of that comprised of U.S. content. Again, the U.S. content equaled 73 percent of the value. I must stress that this U.S. content is produced in U.S. factories, with U.S. workers, whose wages contribute to the U.S. economy. The International Trade Commission determined in their November 1986 report on U.S.-Mexico trade and southwest border development that 807.00 operations contributed substantially to the economic growth and well-being of the U.S. communities along the border. Other preliminary research has indicated that Mexican production sharing operations support U.S. jobs in all of the 48 continental United States.

In the Caribbean and Central America, 807.00 textile and apparel imports totaled $552 million in 1985. Although this number is larger than that from Mexico, it still accounted for only 3.5 percent of total U.S. textile and apparel imports for that year. These production sharing operations contribute significantly to the economies of the host countries, but are a relatively insignificant portion of U.S. consumption. The U.S. Department of Labor and the U.S. International Trade Commission both have determined that imports from the CBI beneficiaries do not disrupt the U.S. economy.

The Caribbean's special guaranteed access program is a real incentive to encourage the use of U.S. content in production sharing apparel assembly operations. This program allows for specially-negotiated, generous levels of guaranteed market access for apparel products sewn in the Caribbean from U.S.-made and cut fabric. According to a special report from the Congressional Research Service updated April 8, 1987, early experience with the guaranteed access program indicates that quotas have in the past been particularly restrictive to the development of the Caribbean apparel industry, and that economic factors provide a real incentive for using U.S.-origin fabric combined with Caribbean labor. Jamaica, the first country to begin using this program, saw its exports of garments using U.S. fabric increase by 57 percent in 1986 compared to 1985. Our Committee has gone on record in previous hearings to support this special guaranteed access program on the basis that it helps both the developing countries of the region and the U.S. industry.

Mr. Chairman and members of the Subcommittee, thank you for giving me the opportunity to address the subject of production sharing and the textile and apparel industry. In the best of all possible worlds, most companies would prefer to keep all their operations in the United States. Such an arrangement would greatly simplify business. However, we must be realistic. The United States cannot dictate the factors of production as they exist in other countries. Instead of the two damaging alternatives of isolating our markets or abandoning domestic production altogether, production sharing gives many companies the option to reach a compromise and continue to use U.S. content in their products. For this reason, I urge this Subcommittee to provide lenient treatment of American goods returned in the form of textile apparel products, and exempt the U.S. content of Item 807.00 imports from the quota growth restrictions as they appear in H.R.1154.

STATEMENT OF DOREEN L. BROWN
PRESIDENT, CONSUMERS FOR WORLD TRADE
BEFORE THE SUBCOMMITTEE ON TRADE
HOUSE WAYS AND MEANS COMMITTEE

THE TEXTILE AND APPAREL TRADE ACT OF 1987

My name is Doreen Brown. I am the President of Consumers for World Trade (CWT), a national non-profit organization which concerns itself with the interests of American consumers in international trade policy, both exports and imports. One of our primary goals is to bring to the attention of the American public and of the formulators of trade policy the high price consumers are paying for the protection of specific industries and products in the form of hidden taxes and the reduction of the availability of lower priced goods in the marketplace.

U.S. textile and apparel trade policy is a classic example of the unwarranted and unjustified economic burden being borne by consumers. Of the $65 billion yearly that consumers pay for U.S. barriers to trade, $27 billion is attributable to protection for the textile industry at the wholesale level. This is approximately equivalent to $54 billion at the retail level.

Our concerns about textile and apparel trade policies started many years ago with the original Multifiber Arrangement (MFA). In 1979, we commissioned a study from David Hartman, a Harvard professor of economics, in which he quoted the Council on Wage and Price Stability as reporting in 1978 that protection due to the MFA had cost consumers $2.7 billion a year, because of tariffs which then averaged 29.3 percent, and $369 million a year due to quotas. A later study, published in 1983 by Michael Munger, of the Center for the Study of American Business at Washington University in St. Louis, estimates that the restrictions cost consumers about $18.4 billion a year in 1980 dollars. Of that 18.4 billion, $3.160 billion for textiles and $11.795 for apparel was due to tariffs, and $3.416 billion for textiles and apparel was due to quotas. These figures are frightening enough, but it is safe to say that these amounts, based on 1980 and 1982 data, have and will continue to increase with the rash of bilateral agreements which have taken place since then and with the recent adoption of more stringent controls on textiles and apparel trade. For example, in mid-January 1983, when the U.S. set quotas on many categories from China, retailers predicted that the price of imported clothing would go up 20 percent or more over a period of 12 months. It is now reported that imported apparel went up 25 to 35 percent in 1984.

As I mentioned earlier, restraints affect consumers not only in price but also in choice and availability. The President of the American Retail Federation, William Kay Daines, explained it this way for a CWT Newsletter interview:

> "The MFA has had a very interesting effect in a number of ways upon consumer goods. Years ago when the MFA first came into being, you did not have, from the Far East, competition in the highly-tailored suits, blouses and other apparel that has now developed as a result of the MFA. Because of the quantitative restrictions the manufacturers abroad kept building to a higher product, trading up, and now you have sharp competition to American apparel in the exact categories where they were highly competitive many years ago. That type of competition does eliminate lower-end goods; however, if the MFA were liberalized or ended, those lower-end goods would return very rapidly."

Kay Daines hit on a very important point in this statement: the fact that the cheaper goods, the ones that attract many American consumers to buy the import in the first place, become scarce and are eventually eliminated. So that it is, unavoidably, the lower income, the fixed income individual, the one who is shopping price, the one who can least afford it who bears the heaviest burden. Import restrictions are thus the equivalent of regressive taxes - a system which America has long condemned.

I have been discussing the price and availability effects of trade restrictive policies, but there is one other factor to be considered. What of retaliation? China did, of course, in 1983 against U.S. exports of soybeans, cotton, and chemical fibers, and has indicated that it will do so again. We don't believe any of the trade experts would be surprised by this action - they would be more surprised perhaps if other major supplying countries did not retaliate also. Hong Kong, of course, being a free market, has a problem, and the Third World countries, which we claim to help on one hand and hit with export quotas on the other, are not in a position to do so. But how long will this keep up? How long before the agricultural community, pitted against the textile sector, pressures trade policy formulators into counter-retaliatory actions? And how long before the consumer feels the devastating effects of an escalated trade war?

The Textile and Apparel Trade act of 1987 (HR 1154), because it calls for trade limiting actions, can be expected to bring about all of the negative consequences attributed to past protection for the domestic industry. The legislation would freeze imports of textiles, apparel and footwear at the 1986 level, impose global quotas on all supplier countries and allow for a one percent annual growth for textiles and apparel and zero growth for imported non-rubber footwear. It is the most severe and all-encompassing legislation yet to be proposed by the textile sector even though the MFA renegotiated last year, was itself broadened to cover virtually all textiles and the growth allowances further restricted. In conjunction with the MFA, tight bilateral agreements with major suppliers and unilateral restraints against smaller countries have further limited textile trade.

The domestic industry, however, joined by the footwear producers, still is not satisfied and finds it necessary to request even further protection from foreign competition. It apparently will never be satisfied until the United States imposes a total ban on imports of textile, apparel and footwear. This, of course, would be disastrous for American consumers.

It has been estimated that HR 1154 would increase the cost of imported textile and apparel by six percent and the domestic cost for these products by two percent. Footwear imports would go up by nine percent and domestic footwear by 10 percent. (International Business and Economic Research Corporation: "Analysis of the Impact of the Textile and Apparel Trade Act of 1987", by Laura Megna Baughman, March 1987)

The same study reveals that consumers would have to pay $223,000 for each of the less than 47,000 jobs protected in 1987. In addition, 52,000 retail jobs would be threatened by the legislation resulting in a total, loss of 5,700 jobs. Consumers would be taxed a total of $88 billon in the 10 years before the proposed law would be reviewed.

As usual in cases of trade restrictions, less expensive merchandise is the first to become unavailable and low and fixed income consumers, including unemployed workers, who must clothe their children even when not earning, are the ones who pay most dearly for this artificially induced regressive tax.

I feel certain that proponents of this legislation will attempt to discredit the exactness of these figures as they have in the past.

I am certain also that further economic analyses will be made that vary slightly from the IBERG study. But that is of no importance. As consumers, we can vouch for the fact that we have had to pay substantial amounts more than necessary over the many years that the industry has received protection. We have not only paid in dollars, but also in quality and availability.

The textile, apparel and footwear industries apparently are not concerned about consumers. This is especially ironic since the textile and apparel industry is reported to be profitable-profits have doubled between 1985 and 1986; productive-capacity utilization in mills was over 95 percent in November 1986; having no overall loss of employment; and with an increase of exports of 10 percent last year according to the Department of Commerce.

CWT's major concern is the direct economic effect of trade restrictions on consumers. Therefore, we are interested as well in the overall conduct of trade. This is why we have been following closely and speaking out on issues relating to the Uruguay Round of GATT negotiations which, we believe, will be a major determinant as to the survival of a strong multilateral trading system able to contain protectionist actions through the GATT disciplines.

There is no doubt that the proposed legislation is inconsistent with the GATT in that it ignores Article XIX which allows temporary protection, with compensation, from imports which cause or threaten to cause serious injury to a domestic industry. The current state of the industry, as discussed earlier, belies any such finding. In the legislation, injury to the industry is merely a statement of fact which has not been researched. Moreover, the global quotas called for in the proposal are long-lasting, rather than temporary, extending for a period of at least 10 years before they are reviewed.

The proposal would also flagrantly ignore the Standstill and Rollback commitment made by GATT member nations, including the United States, at the Punta del Este Ministerial meeting preceding the start of the Uruguay Round.

CWT will continue to stress the need for a radical change in U.S. textile and apparel trade policy for as long as necessary and will continue to call for the liberalization of bilateral agreements and the elimination of the MFA for as long as the industry demands protection. The open-ended program of protection for the domestic manufacturers, a program which, by its very nature, has failed to provide the challenge necessary for the industry to confront foreign competition and market-oriented world trade must come to an end. American consumers must not be forced to subsidize ineffective trade policies any longer.

In conclusion, we would like to urge the members of this Committee to oppose H.R. 1154, on the grounds that it is irresponsible legislation that would harm consumers; violate the GATT and jeopardize the success of the Uruguay Round; involve our largest trading partners and invite justified retaliation on their part against U.S. products. This is not the way to enhance competitiveness, expand trade, reduce the trade deficit, and open world markets to U.S. exports as called for by this Congress. These worthy goals will only be reached by avoiding the passage of unwarranted trade restrictive legislation, detrimental to workers, producers and to the public interest.

From the desk of :
L F CROMER
P.O. BOX 3111
ANDERSON, S.C.
29621

4/29/1987

House Ways And Means Committee
Washington, D.C.

MAY 4 1987

Dear Sirs,

Recently it was announced that your committee would be holding public hearings on the Textile and Aparal Act and I would like this report accepted as information.

Since I work under Manpower which assigns personnel to various plants and industries I am in a position to compare certain aspects of production and equiptment as they relate to our ability to compete in the global market.

As this relates to the textile industry it is evident that even in some major corporations (BASF Fibers for example) the workers do not even try to motivate themselves against the threat of imports and want to do as little work as possible whichis in direct contrast to our foreign competition as a friend recently informed me upon his recent return from Asia.

It seems to me that the workers expect to be barred from natural competetive forces by legislation which is now before your much admired body of the United States.

Let it also be noted that I am free from any biases and and have accepted assignments in the textile field just to see first hand the conditions and am a trained civil and industrial designer and usually work for various federal agencys designing powerplants, parks, environmental facilities and the like and frankly I was VERY surprized at what I have found in the textile industry.

Also since I have very cautiously tried to motivate the people in the plants I have been the subject of unbelieveable criticism and mass hatred as the workers just fail to understand that in a market such as ours, it is the one willing to make the sacrifices who puts out the products at the quality and price which the consumer demands.

In closing I hope my research can be of value as I hope to distance myself from the textile field and go to work for a major gov't contractor in the main't of nuclear facilities as I just can't stand the constant threats, intimidation and harrassment I am recieving from management and rank and file personnel in the enigmatic textile industry.

Very Sincerly Yours,

Leopold F. Cromer

STATEMENT OF
DR. WILLIAM C. MOTES
ECONOMIC PERSPECTIVES, INC.
BEFORE THE
SUBCOMMITTEE ON TRADE
OF THE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

May 18, 1987

Mr. Chairman, I am William C. Motes of Economic Perspectives, Inc., McLean, Virginia. Economic Perspectives, Inc. (EPI) is a consulting firm specializing in food and agricultural economics. The senior staff of EPI has long experience analyzing economic impacts of federal policy decisions on farmers, consumers, the economy, and the government. Our clients include farm and consumer groups, producers and manufacturers of foods and other products, the U.S. and foreign governments, foundations, and others. We appreciate this opportunity to present our views on the agricultural implications of proposed textile legislation.

EPI is presently conducting an analysis of the potential impacts on U.S. agriculture of the Textile and Apparel Trade Act of 1987 (H.R. 1154). The issue is complex because U.S. raw materials, primarily cotton, are used to produce textiles both here and abroad. Furthermore, several of the largest textile exporters to the United States are very important trading partners. Any proposal with potential impacts on agricultural trade deserves careful scrutiny, and that is the reason for our study. We are examining the way the programs authorized by H.R. 1154 might be expected to work, their potential economic impacts on each of our major trading partners, and the several steps that might be taken both by the United States and its trading partners to resolve issues that might emerge. While this study is not yet complete, we have some preliminary observations based on work to date which we would like to share with you.

U.S. textile imports have been growing at an annual rate of 18 percent since 1980. In earlier efforts to rationalize the trading basis for U.S. textile markets, the Congress authorized bilateral agreements to limit U.S. imports from the largest exporters. However, imports continued to grow rapidly and in 1985 Congress passed a bill requiring country-by-country import quotas based on 1984 trade levels. The President vetoed that bill on December 17, 1985. The basic concerns about rapidly growing textile imports persist, however, and have led to the consideration of H.R. 1154.

Effect of H.R. 1154 on Textile Imports

The proposed bill would place annual limits on total U.S. imports of textiles. However, it is different than the bill passed by the Congress and vetoed by the President last year in three fundamental ways. It permits significantly greater amounts to be imported, based on actual 1986 import levels rather than imports of 1984. It defines only global quotas and permits the Administration to negotiate individual quotas with each exporter. And, it contains specific provisions to determine and negotiate claims for compensation with any trading partners.

H.R. 1154, if enacted, would limit the total volume of imports of each category of textile and apparel to 1986 levels plus growth of no more than 1 percent in any year. On the basis of existing agreements and current economic trends, textile and apparel imports are expected to grow about 6 percent in 1987 to 13.6 billion square yard equivalent (SYE) if H.R. 1154 is not enacted (Table 1). Assuming a uniform allocation under the bill, imports would be

12.7 billion SYE, a 6.6 percent reduction. While imports would be lower with the bill than without it, growth from the previous year would be allowed in every category.[1] This reduction would raise U.S. textile prices somewhat, offsetting part of the impact on exporters of any reduction in quantities shipped. Considering both the quantity and price effects, revenues from imported textiles and apparel would be expected to be reduced by $700 million in 1987, a 4 percent decrease.[2]

Table 1. U.S. Textile and Apparel Imports, 1987:
Impacts of H.R. 1154

Item	Import Quantity					Import Value		Import Reduction	
	1985	1986	1987						
			Without Bill	Growth Rate	Under Bill	Without Bill	Under Bill		
	- - million SYE - -			(%)	(mil SYE)	(million $)		(mil SYE)	(mil $)
Taiwan	1,616.6	1,731.7	1,738.4	0.4	1,720.6	2,833.9	2,838.3	17.9	-4.4
China	992.3	1,508.4	1,736.7	15.1	1,548.2	2,005.6	1,855.3	188.5	150.2
EC-12	1,663.1	1,673.5	1,529.1	-8.6	1,441.9	2,420.1	2,363.2	87.2	57.0
Rep. of Korea	1,113.3	1,221.2	1,233.6	1.0	1,220.6	2,058.8	2,074.5	13.1	-15.8
Hong Kong	1,053.0	1,108.5	1,116.5	0.7	1,106.5	2,730.0	2,760.3	10.0	-30.4
Japan	761.6	832.1	817.5	-1.7	774.7	1,154.9	1,120.3	42.8	34.6
Pakistan	289.0	350.0	368.6	5.3	333.1	190.5	183.8	35.5	6.7
Mexico	251.8	383.1	441.5	15.2	408.8	408.3	379.5	32.7	28.8
Canada	299.1	411.8	450.3	9.4	419.9	291.3	276.1	30.4	15.2
Philippines	269.6	299.6	343.7	14.7	322.5	480.8	465.7	21.2	15.0
Indonesia	278.0	297.6	313.1	5.2	281.3	335.4	303.4	31.8	32.0
India	269.5	289.1	311.0	7.6	287.7	384.4	369.3	23.3	15.1
Thailand	271.3	275.2	304.6	10.7	280.5	258.0	250.5	24.1	7.5
Brazil	199.8	208.1	215.2	3.4	200.0	199.3	195.7	15.2	3.7
Malaysia	152.5	191.4	240.1	25.4	217.2	310.1	285.9	22.8	24.3
Singapore	159.8	192.5	219.5	14.0	201.4	436.0	413.5	18.1	22.6
Dominican Republic	149.6	183.8	224.9	22.4	197.0	331.4	299.5	27.8	31.9
Turkey	92.7	183.2	243.9	33.1	205.9	244.5	206.9	38.0	37.7
Sri Lanka	123.6	144.5	157.0	8.7	145.2	272.8	255.8	11.8	16.9
Costa Rica	49.7	133.0	183.1	37.6	143.2	168.0	147.5	39.9	20.4
Subtotal	10,056.1	11,618.3	12,188.5	4.9	11,456.2	17,514.0	17,045.1	732.3	468.9
Other	995.1	1,197.9	1,406.2	17.4	1,245.8	2,023.8	1,787.7	160.4	236.1
World	11,051.1	12,816.2	13,594.7	6.1	12,702.0	19,537.7	18,832.8	892.7	705.0

---

[1] Total textile and apparel imports under the bill in 1987 would be slightly lower, however, because imports of some categories are expected to grow less than 1 percent or decline.

[2] This represents the maximum level of impact on textile exporters, since textiles diverted from the U.S. market might be sold elsewhere.

The impact of the bill on individual exporters depends upon the negotiated quotas. Four of the largest exporters--Taiwan, Hong Kong, Korea, and Japan--would be little affected since strict agreements limiting their textile exports to the United States already have been negotiated. Assuming that each of the other exporting countries were allowed the same growth rate for each category of imports, export reductions would be broadly distributed and relatively small. China would face the largest sales reduction, an estimated $150 million, less than 8 percent in value terms. No other exporter would face a reduction in sales to the United States of more than 14 percent. Those exporters whose sales volume would not be significantly reduced by the bill (including Taiwan, Hong Kong, Korea, and Japan) could gain revenue from higher textile and apparel prices.

Implications for U.S. Agriculture

The proposed legislation would mean net increases in U.S. cotton and wool sales. Domestic mill use would grow as imports decline. Cotton export markets would be reduced slightly as a result, but the gain in domestic markets would exceed the export market loss.

H.R. 1154 would reduce the amount of cotton imported in textile products by about 140 million pounds in 1987. Domestic textile production likely would replace 80 to 100 percent of the imported cotton products, so that domestic cotton mill use would be increased by 110 to 140 million pounds. The increase in domestic cotton sales would be partly offset by reduced exports as textile exporting nations buy less. Assuming the United States maintains its market share in affected textile exporting countries, U.S. cotton sales overseas could be reduced by as much as 10 million pounds. The net impact would be an increase in U.S. cotton sales by 100 to 130 million pounds (210,000 to 270,000 bales), 1.5 to 2.0 percent, and could increase cotton prices slightly.

Domestic mill use of wool would increase by up to 7 million pounds (5 percent). Since we now import wool, an increase in domestic use would mean increased imports. However, expanded domestic use would provide an opportunity for domestic producers to compete with imports. Increases in domestic wool prices would be capped by the availability of imports at world market prices, but domestic market expansion could mean upward price pressure and a small increase in domestic prices.

Potential for Retaliation

When considering trade legislation, one major concern is the potential for retaliation. This is particularly true for agriculture because export markets are large and important and because the U.S. agricultural trade balance is positive in many markets. In recent years, several U.S. trading partners have developed programs to increase agricultural production to compete with U.S. exports both in their domestic markets and third countries. As current world surpluses have grown in a broad range of agricultural products, the United States has taken steps to counter competitors' actions, and trade tensions have grown. While U.S. agricultural exports, like those of any important exporter, can be vulnerable when world prices are under pressure from large stocks and surplus production, we conclude that the proposed bill is very unlikely to trigger significant retaliation against U.S. agricultural exports. There are several reasons:

- The United States would continue to be a large, important market for imported textiles. The impacts of the bill would be quite small compared to the total volume of textile trade between the United

States and the affected exporters, who are unlikely to be willing to jeopardize this market. The total reduction in U.S. textile imports from that expected under current law in 1987 would be less than 4 percent (in value terms).

- The measures authorized by the proposed bill are similar to those other importers have taken without retaliation. The import limitations in H.R. 1154 are no more restrictive than those imposed by the EEC on many categories of textile imports under the Multifiber Arrangement. No significant retaliation against the EEC has occurred, in spite of continuing threats.
- No country is singled out by the bill for restrictive treatment. Individual country quotas would be negotiated within global limits established for each category.
- The bill contains mechanisms to deal with grievances by trading partners. Compensation could be provided to affected countries by reducing tariffs on imports of textiles and apparel and by other means.
- Nearly all of the affected countries have substantial trade surpluses with the United States, and thus much to lose from a trade war (Table 2). Many are also close political allies and more likely to seek negotiated solutions than confrontations.

The provisions of H.R. 1154 also could be used in U.S. negotiations concerning foreign trade barriers to sales of U.S. agricultural and other products, especially in textile exporting nations who restrict U.S. access to their markets.

The President and the Secretary of Agriculture have a broad range of permanent authorities which can be used to protect U.S. farm programs from excessive interference from imports. These authorities have been in place for many years. They are provided for in a range of international agreements and their judicious use has provided no legal basis for retaliation. For example, country-by-country quotas are in place at this time for cheeses and for sugar. Voluntary restraint agreements are negotiated with individual beef exporters whenever total U.S. beef imports are projected to exceed specific shares of the domestic market.

Table 2. U.S. Non-Agricultural and Agricultural Trade with Textile Exporting Countries

Item	Net Trade				
	FY 1985		FY 1986		Trade Balance FY 1986
	Non-Agricultural	Agricultural	Non-Agricultural	Agricultural	
	- - million dollars - -				
Taiwan	-12,288	1,147	-14,354	915	-13,439
China	49	53	-809	-104	-913
EC-12	-18,612	2,917	-27,507	2,327	-25,180
Rep. Korea	-4,916	1,344	-7,143	1,199	-5,944
Hong Kong	-5,822	335	-6,239	322	-5,917
Japan	-47,430	5,460	-60,624	4,940	-55,684
Pakistan	570	219	331	275	606
Mexico	-5,788	276	-4,756	-867	-5,623
Canada	-22,289	-181	-25,256	-505	-25,761
Philippines	-527	-241	-433	-257	-690
Indonesia	-3,484	-519	-2,357	-475	-2,832
India	-736	-128	-433	-270	-703
Thailand	-436	-85	-602	-181	-783
Brazil	-2,933	-1,864	-1,874	-1,420	-3,294
Malaysia	-429	-285	-528	-257	-785
Singapore	-583	37	-1,294	31	-1,263
Dominican Republic	-13	-233	32	-179	-147
Turkey	860	-79	737	-103	634
Sri Lanka	-197	-15	-240	1	-239
Costa Rica	177	-250	162	-304	-142

NOTE: A minus sign indicates a U.S. trade deficit with the country.

Source: USDA.

Vulnerability of U.S. Agriculture to Retaliation

U.S. agricultural trade with textile exporters is concentrated in the EEC, Japan, Canada, Mexico, Taiwan, Korea, Hong Kong, Brazil, Pakistan, and the Philippines. These 10 nations accounted for 95 percent of U.S. agricultural exports to the top 20 textile exporters in 1986, while no other major textile exporter accounted for more than 1 percent of U.S. agricultural exports in FY 1985 or 1986, or is likely to in 1987. Each of these exporters except Pakistan and the Philippines had a trade surplus of more than $3 billion with the United States in 1986. Several, including Mexico, Canada, Brazil, and the Philippines, have trade surpluses in agricultural as well as non-agricultural trade, and hence much to lose even from a limited trade confrontation.

Of these major textile exporters, only Pakistan has a trade deficit with the United States. More than one-third of Pakistan's $285 million in agricultural imports from the United States in FY 1986 were under food aid programs, and large U.S. AID programs are continuing there. The impact of H.R. 1154 on Pakistan would be relatively small, a reduction of $7 million worth of textile exports in 1987.

Our review of U.S. trade patterns with the major textile exporters indicates that retaliation is very unlikely. The potential loss to these countries from trade frictions with the United States would be much greater than the bill's potential impact. As mentioned earlier, Japan, Taiwan, Korea, and Hong Kong have already agreed to strict import limits and could actually gain as a result of the bill.

As a large U.S. export market and a serious competitor for many U.S. and world agricultural markets, potential EEC retaliation is a matter for continuing concern. Trade tensions between the EEC and the United States are already high. EEC officials have repeatedly threatened retaliation if H.R. 1154 is adopted because of the bill's impact on its textile exports to the United States, and their concern about the diversion into the EEC market of exports previously destined for the United States. Soybeans and soybean products in particular are frequently mentioned as a target because of EEC concerns over U.S. competition with EEC products and the high cost of their oilseed subsidies.

In spite of the intense competition between the EEC and the United States for limited world agricultural markets, each is bound by trading rules which can be changed only by carefully defined procedures. Trade between the two partners is immense. While the United States has a $2.3 billion agricultural trade surplus, the EEC total trade surplus is tenfold that level, $25.5 billion. Thus, neither side is free to disregard the agreements that govern this trade. Those rules would not permit grievances about grain or flour markets or even concerns about diversion under H.R. 1154 of textile exports previously destined for the United States to become grounds for retaliation. Since the market restrictions proposed by H.R. 1154 appear to be legitimate under the General Agreement on Tariffs and Trade (GATT), and since the bill's provisions appear to be no more restrictive than the EEC's own textile import programs (which have negative impacts on the U.S. textile industry), effective EEC retaliation seems unlikely.

The most likely EEC response to H.R. 1154 appears to be increased trade tension but no major retaliation for several reasons:

o The bill need not have any impact at all on the EEC. Textile imports from the EEC have fallen in 1987 with the declining value of the dollar, so an EEC import sales reduction might not be needed. If the Administration chooses to establish an EEC quota, it could ensure them a share of the U.S. market they might otherwise lose.

- The expected impacts of H.R. 1154 on the EEC would be extremely small compared to their trade surplus with the United States.
- There are provisions in the proposal which would allow the EEC to seek compensation for any losses it can demonstrate as a result of the bill.
- The EEC has restricted its own textile imports. These actions have damaged the U.S. industry, but the United States has not been compensated. Most significant is the "two-process" origin rule agreed to by the EEC and European Free Trade Area (EFTA) countries which effectively prohibits textile and apparel products from obtaining duty-free status within EFTA if they are made from intermediate textile products from countries outside the EFTA. According to the U.S. Trade Representative, the annual loss in U.S. textile exports due to these rules is about $200 million.
- As evidenced in the recent confrontation concerning the impact of the accession of Spain and Portugal into the EEC on U.S. corn and soybean exports, both are willing to negotiate compromises on trade.

Should the EEC move to place levies on imports of soybeans and soybean products or to tax imports of fats and oils in retaliation against H.R. 1154, they could risk retaliation against their trade surplus with the United States because such an action appears to violate GATT rules. It would be a serious matter since it could reduce EEC soybean imports by up to 10 percent and total

U.S. soybean sales by as much as 1 percent. While this would be a significant impact, its effect on the farm price of soybeans likely would be small.

These actions, if they occurred, would be difficult to attribute to H.R. 1154. Strong pressures have long been building to reduce the high cost of the Common Agricultural Policy through new levies on imported oilseeds and oil meals. The tax on fats and oils was proposed independently of any concern over U.S. textile legislation, and has support for much different reasons. Adoption of such a measure, even if retaliation to the textile legislation were claimed, would more likely indicate that it would have been adopted anyway.

In summary, our evaluation of the impacts of H.R. 1154 leads to the conclusion that the most likely scenario is for no retaliation against the bill. The primary impact of the bill on agriculture would be to increase sales of U.S. cotton by 210,000 to 270,000 bales.

COMMITTEE ON
RECEIVED
AUG 6 1987
WAYS AND MEANS

DELEGATION OF THE COMMISSION OF THE EUROPEAN COMMUNITIES

The Head of the Delegation

5 August 1987.

RECEIVED
AUG 6 1987
SUBCOMMITTEE ON TRADE

The Honorable
Dan Rostenkowski
Chairman
House Ways and Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman,

The House of Representatives may vote this Friday on the Textiles and Apparel Trade Bill of 1987. I thought that you might like to know the European Community's position regarding this Bill.

In our view, if it is enacted it will not only fundamentally change the way the world textile trade has been conducted in the last 25 years, but will also have inevitable and far-reaching negative effects on the entire free-world trading system, including our work in the Uruguay Round. It will violate the GATT rights of all suppliers of textiles and apparel to the U.S., and will lead inevitably to the scrapping of the Multi-Fibre-Arrangement (MFA) and to restrictions on EC exports to the US. This will result in chaos for third world textile trade.

There should be little doubt that the Community would be obliged to adapt its textile trade policy to prevent diversions and to retaliate against US products, with the resulting substantial loss of US jobs at a time when US textile exports to the EC are growing rapidly.

I do hope that you and your colleagues will be able to take this view into account at the time of the vote.

Yours sincerely,

B. Jacob

Barbara Jacob
Head of Delegation a.i.

2100 M Street NW 7th Floor Washington DC 20037 / telephone: (202) 862-9500 / telex: 64215 EURCOM UW

EMBASSY OF FINLAND
WASHINGTON, D. C.

July 9, 1987

The Honorable Sam M. Gibbons
U.S. House of Representatives
2204 Rayburn House Office Building
Washington, D.C. 20515-0907

RECEIVED
JUL 1 1987

Dear Mr. Gibbons,

The Nordic countries have with great concern been following discussion on the proposed Textile and Apparel Trade Act of 1987 in the Congress. We feel that this bill, if enacted would have a serious negative impact on the textile trade between the Nordic countries and the United States as well as on the world trading system as a whole.

Please find enclosed, for your information, a copy of a memorandum that I, on behalf of the governments cf Finland, Norway and Sweden, have recently transmitted to the United States Representative.

Sincerely,

Paavo Rantanen
Ambassador of Finland

Encl.

MEMORANDUM

The Nordic countries Finland, Norway and Sweden wish to express their deep concern about the proposed "Textile and Apparel Trade Act of 1987" (H.R. 1154/S. 549), which would impose unilateral restrictions on imports of textiles and apparel into the United States from all countries.

The Nordic countries fully recognize the problems in international trade in general as well as the difficulties arising from the continuously growing imports of textiles and apparel into the United States as well as other industrialized countries, in particular from developing countries, newly industrializing countries and countries having a centrally planned foreign trade system.

In the view of the Nordic countries, the proposed Act would comply neither with the relevant rules of international trade in general, nor with the Arrangement Regarding International Trade in Textiles, as extended by the Protocol of July 31, 1986, mainly for the following reasons:

- Permanent quotas would be imposed on all textile products imported into the United States from any country or territory, without sufficient evidence neither of market disruption, nor of injury to the domestic production of the United States.

- The compensation offered in the form of minor duty concessions for the imports allowed under the quotas is insufficient.

In the case of imports from the Nordic countries, the introduction of quotas on textiles and apparel would be particularly unreasonable. The United States for many years has enjoyed a positive trade balance with the three Nordic countries in textiles and apparel. Exports of textile fibres, textiles and apparel from the Nordic countries in 1986 amounted to 41 million dollars. The corresponding imports into the Nordic countries from the United States amounted to 71 million dollars. The export figures also clearly indicate that the Nordic countries are not contributing in any way to possible market disruption in the United States.

The Nordic countries fully acknowledge the right of the United States to take action against imports causing or threatening to cause market disruption and seriously damage its domestic industry. Any action in this respect should, however, be taken in a way which does not violate the legitimate interests of those countries which neither cause market disruption or threat thereof, nor contribute to any damage caused by disruptive imports.

Should the Bill previously referred to be enacted, it might jeopardize not only the present regime for international trade in textiles and apparel, but also have serious repercussions on the present multilateral trading system under the auspices of the GATT. If enacted, this legislation might have serious negative effects on the preparations and the conduct of the Uruguay Round.

While fully recognizing the need to maintain an orderly development of textile and apparel imports, the Nordic countries strongly appeal to the United States to adhere strictly to the jointly agreed rules and provisions of international trade when deciding upon measures in this field. Difficulties experienced by importing countries call for solutions within the established multilateral framework. Unilateral actions which are inconsistent with international obligations can only impede general endeavours to improve the multilateral trading system.

Washington, D.C., July 9, 1987

Statement of John G. Reilly
President, International Programs of ICF Incorporated
To The Subcommittee on Trade, House Committee
On Ways and Means Concerning the
Textile and Apparel Trade Act of 1987
(HR 1154)

1. Introduction

Mr. Chairman, members of the Subcommittee, my name is John Reilly. I am the President of the International Trade and Development Division of ICF Incorporated. ICF is an independent economic, management and technical consulting firm headquartered in Washington, D.C. Our staff numbers approximately seven hundred persons, of whom two-thirds are based in Washington. Since 1980, ICF has prepared economic analyses and testimony in nearly a hundred matters concerning international trade litigation and trade policy. Our firm offers its services impartially to domestic and foreign clients on the basis that we will conduct independent and objective analyses of the issues of concern within the structure of applicable law or policy. Furthermore, we undertake all of our client work on the condition that we will speak solely to our findings and conclusions, and will not advocate any position with respect to policy, legislation or the findings of any administrative body. I should also note that the majority of ICF's work in the trade field has been and continues to be for foreign firms that do business in the United States.

In early 1986, the Fiber, Fabric and Apparel Coalition for Trade (FFACT) retained ICF to analyze the economic costs and benefits of the Textile and Apparel Trade Enforcement Act of 1985 (HR 1562). We developed an analytical model, put together a data base, completed the analysis, and published our results just about a year ago. Earlier this year, FFACT requested that we conduct a similar analysis of the textile and apparel provisions of HR 1154. I am here today to testify concerning the results of the ICF analysis and how we arrived at them. In describing ICF's analysis, I will also comment on the economic welfare analysis prepared for the Retail Industry Trade Coalition (RITAC) by the International Business and Economic Research Corporation (IBERC). The IBERC analysis is the source of the economic cost estimates cited by Mr. W. Thomas Gould who testified before this subcommittee for RITAC on May 7.

The ICF analysis assumes that HR 1154 was enacted and enforced at the beginning of 1987. IBERC's analysis makes the same assumption. The period covered by our analysis is 1987 and 1988. Consequently, we evaluated the short-run costs and benefits of the textile and apparel provisions of HR 1154.

2. Results of ICF's Analysis

ICF analyzed three scenarios reflecting different assumptions about baseline textile and apparel import growth. The results I will report today are based on assumed baseline import growth rates of about 17 percent per year in 1987 and 1988 from the actual 1986 level. The 17 percent growth rate represents the weighted average rate of increase for imports from 1980 through 1986. The other ICF scenarios assume lower 1987 and 1988 rates of import growth.

Compared with the baseline reflecting a 17 percent rate of import growth, HR 1154 would reduce total imports in square yard equivalents (SYE) by 2.1 billion SYE or 13.5 percent in 1987 and by 4.6 billion SYE or 25.3 percent in 1988. The reduction of imports would result in increased U.S. fabric production of 1.2 billion SYE or 4.7 percent in 1987, and 2.6 billion SYE or 9.7 percent in 1988.

The major portion of the fabric production increases would be to support increased U.S. production of final products including apparel and madeups, e.g., sheets and towels. I should emphasize that the production "increases" are measured against a projected level of production in each year which assumes that HR 1154 is not enacted. Thus, the increases do not represent production growth from year to year. The gain in production of final products including apparel and madeups would be 800 million SYE or 4.0 percent in 1987 and 1.7 billion SYE or 8.1 percent in 1988 compared with baseline production in each year. The total value of the production gains for all products based on producer prices would be $2.8 billion in 1987 and $6.2 billion in 1988.

The aggregate gains in domestic production of textile and apparel products would produce net employment gains in the producing and supplier industries of 81,800 jobs in 1987 and 152,100 jobs in 1988, compared with baseline levels. My reference to net employment gains is intentional. If the job opportunities related to increased production merely drew workers from other jobs, there would be no net employment gain. The figures I have just quoted represent the net gain in employment of workers who otherwise would have been idle in 1987 and 1988. In value, the net employment gains in textile and apparel production amount to $1.7 billion for 1987 and $3.3 billion for 1988. These figures represent the economic benefits of HR 1154 to the U.S. economy.

The textile and apparel provisions of the Bill will impose costs on the U.S. economy as a result of textile and apparel price increases and reduced textile and apparel consumption. Compared with baseline levels, the reduced quotas under the Bill would cause producers' prices for apparel and other final products to increase by 0.8 - 1.2 percent in 1987 depending on the product, and by 2.0 - 2.6 percent in 1988. I should note that the final product price increases which I have just quoted include the effect of increased prices for fabrics used in final product manufacturing.

Consumption of fabric under the Bill would increase from baseline levels by 800 million SYE or 2.7 percent in 1987 and by 1.8 billion SYE or 5.5 percent in 1988. The increase in fabric consumption reflects the substitution of U.S.-produced fabric for the fabric in final products which formerly were imported. Consumption of apparel under the Bill would fall by 300 million SYE or 1.1 percent in 1987, and by 600 million SYE or 2.5 percent in 1988 compared with baseline levels. For other final products, consumption would fall from baseline levels by 100 million SYE or 1.2 percent in 1987, and by 200 million SYE or 2.8 percent in 1988.

The cost to purchasers of the price increases and consumption declines (or the decline in consumer surplus), including the cost to the economy of changes in quota rents, would amount to $1.4 billion in 1987 and $3.3 billion in 1988. After adjusting for the components of such costs which represent transfers of wealth within the economy rather than net losses to the economy (that is, gains by producers), the net cost to the economy of the consumption, production, and price changes, (or the deadweight losses) would amount to $700 million in 1987 and $1.6 billion in 1988.

Based on a net real employment gain of $1.7 billion and a deadweight loss of $700 million dollars, the net economic benefit of the textile and apparel provisions of HR 1154 would be $1.0 billion in 1987. For 1988, a net employment gain of $3.3 billion and a deadweight loss of $1.6 billion would produce a net positive balance of $1.7 billion.

Under the other two textile and apparel import growth scenarios evaluated by ICF, the net costs and benefits of HR 1154 were less than in the scenario that I have just summarized. Nevertheless, the estimated economic benefits exceed costs in both cases.

I am aware that this Subcommittee has heard numbers which lead to quite a different conclusion. Consequently, I will explain in some detail how ICF prepared its analysis and contrast ICF's work with that produced by IBERC on behalf of RITAC.

3. The Bases for the ICF Analysis

The branch of economics which addresses normative questions related to government policy is known as welfare economics. ICF's analysis is based on general definitions of costs and benefits which are universally accepted by welfare economists. It is vital to any interpretation of our work that these definitions be clearly understood.

Application of binding a quota to any good, or reducing an existing quota will cause price to rise and consumption to fall. This combination of events imposes costs on purchasers. On this, the ICF and IBERC analyses agree. The cost to purchasers does not, however, measure the cost of a quota to the economy. A significant portion of the cost to purchasers represents a transfer of wealth to producers within the economy rather than a loss of wealth to the economy. In addition, quotas create what is known as quota rents, which are the price premiums paid for traded goods under the quota. Quota rents may be captured by foreign producers, in which case they represent a cost to the economy. Such rents, however, may also be captured in whole or in part by U.S. purchasers of the traded goods if the purchasers are large relative to the foreign producers, and have market power. Government may also capture quota rents by auctioning quota rights or by placing a tariff on the imports. For the sake of conservatism, ICF has assumed that all changes in quota rents represent a loss to the U.S. economy.

After one accounts for transfers of wealth within the economy, one is left with a residual portion of the change in consumer surplus that represents the cost to the economy of a quota. The economic cost estimates prepared by IBERC represent only IBERC's estimate of the total change in consumer surplus due to HR 1154, and can in no way be construed as representing the cost of the Bill to the economy. My comments apply to IBERC's assessment of both the textiles and apparel provisions of the Bill and the footwear provisions of the Bill.

Before continuing, I would like to make some comments about the welfare significance of the terms "consumer" and "producer", because the two terms tend to be much misunderstood and much abused. Dividing an economy into producers and consumers is to some extent arbitrary. Each of us is both a consumer and a producer. Moreover, the words have a political connotation. The consumer is sometimes portrayed as a powerless underdog and the producer as a fat old man who lives in a large house and smokes a big cigar. The economic reality is that the term "Producer" refers to all of the people and capital which are directly and indirectly engaged in the manufacture of any product. The people directly and indirectly engaged in making textiles and apparel have incomes significantly below the national average, as do the people producing footwear. Since the cost of HR 1154 will be spread across the U.S. population at large, any transfer of wealth occasioned by the gain in producer surplus is likely to redistribute income towards rather than away from low income groups.

ICF's analysis measures the economic losses occasioned by the textile and apparel provisions of HR 1154 in dollars for the purpose of cost-benefit analysis. In concept, the dollar income loss could also be stated in terms of job losses.

The economic benefits of HR 1154 are equal to the dollar value of the net employment gains resulting from domestic textile and apparel production increases occasioned by the quota change under the Bill. If the employment opportunities created by the production increases draw workers from other equally productive jobs, then the employment would have no economic benefit. Thus, the focus of the employment analysis must be on the extent to which production increases would employ workers who would otherwise have been idle. On this concept, ICF and IBERC agree. As to the rest of the employment analysis, we do not agree.

ICF estimated the gross gain in employment opportunities in textile and apparel production through the use of input/output coefficients for the textile and apparel industries developed by the Bureau of Labor Statistics. The use of input/output analysis permits a comprehensive estimate of job opportunities from a production change which encompasses both direct employment in the production of textiles and apparel and job opportunities in the upstream industries which supply inputs to textile and apparel manufacturing. IBERC's employment analysis omits the upstream suppliers completely, and therefore materially understates the gross new job opportunities associated with a change in production. Since IBERC's analysis of footwear employment also omits upstream suppliers, IBERC's estimates of new footwear job opportunities is also materially understated.

The next step in the analysis of employment benefits is to determine whether the job opportunities can be expected to employ workers who would otherwise have been idle. To make this determination, ICF analyzed the labor markets in the top fifteen textile and apparel producing states and projected baseline labor pools through 1988, the number of unemployed workers in the labor categories used by the industries of concern, and unemployment rates. We next distributed the gross employment opportunities among the fifteen states in proportion to the relative textile and apparel-related employment in each state.

At the national level, labor economists have variously estimated that there is a frictional unemployment rate of four to seven percent which represents a minimum long-run unemployment rate. The frictional rate recognizes that there will always be some workers between jobs, and that adjustment of labor resources to labor market changes at the national level will always be slowed by problems of occupational and geographic labor mobility. This simply means that some of the workers who are reported to be unemployed will not be truly available to take any job which may arise. To account for the problem of frictional unemployment, ICF assumed that only that portion of the unemployed labor force in each state representing an unemployment rate in excess of six percent would constitute truly idle workers available for textile and apparel employment. Thus, if the total unemployment rate in a state was seven percent, only one-seventh of the unemployed workers in the labor pool would represent truly idle workers.

I should note that ICF's six percent frictional unemployment rate is very conservative for a number of reasons. First, frictional unemployment related to geographic labor immobility would not be a major concern because the labor market analysis looks at only the in-place unemployed labor force and contemplates no in-migration of idle workers to take available jobs. Second, occupational immobility of labor should not be a major barrier to employment as the vast majority of entry-level textile and apparel workers need no hard-to-find skills. Finally, labor economists agree that published unemployment data understate the true unemployment rate because the data do not count discouraged workers who have quit looking for work and/or who would enter the labor force if they saw a reasonable prospect of getting a job. One widely accepted estimate is that such discouraged workers amount to about 10-14 percent of the total number of persons actually counted as unemployed. ICF's method takes no account of the availability of such discouraged workers.

In short, ICF's analysis of net additional employment related to gains in textile and apparel production measures the demand for new workers against a very conservative estimate of the supply of idle workers in 1987 and 1988.

ICF's baseline U.S. textile and apparel production projections for 1987 and 1988 are based upon industry-specific real output indexes published in December, 1986 by Wharton Econometrics Associates, Inc. in the Wharton Econometrics' Long-Term Forecast. Wharton's forecast was for real output increases in 1987 and 1988. The forecast increases in real output would be about the amounts required to hold total textile and apparel employment stable at the 1986 level. Thus, the ICF baseline projections imply generally stable textile and apparel employment in those years. Under such conditions, the 1987 and 1988 employment gains associated with the Bill would require that new workers be hired. ICF's employment analysis, therefore, focuses on, the potential availability of unemployed workers to fill the job openings created by HR 1154.

In reality, the volume of import growth implied by ICF's 17 percent and 10 percent import growth scenarios may imply some decline of baseline U.S. textile and apparel production and related declines in employment. The possible differences in actual baseline production for 1987 and 1988 from those based on the Wharton forecast would have no material effect on ICF's calculation of the cost and production changes due to HR 1154. One difference, however, would be that some portion of the textile and apparel employment gains due to the bill would represent current jobs "saved" rather than demand for additional workers. One question that could arise, therefore, is whether the method employed by ICF to estimate the proportion of new job opportunities that could translate into net employment gains is applicable in a situation where the Bill might "save" existing jobs. The answer to the question is that the ICF method of analysis is appropriate in both cases.

The method of employment analysis used by IBERC and some others who have estimated the costs and benefits of import restraints is based on the assumption that the U.S. economy will quickly expand to provide jobs for workers displaced by imports. This assumption is implicit in the use of a historical average period of unemployment for textile and apparel workers as the basis for computing the net production employment benefits of an import reduction. IBERC notes that BLS data indicate that the historical average rate of turnover in the pool of unemployed textile and apparel workers is 15.5 weeks. IBERC then assumes that any worker who loses a job due to reduced production related to imports will remain unemployed for only 15.5 weeks. Consequently, the value of each job saved is equal to 15.5/52 or about 30 percent of a year's wage in the year the job is saved, and that job provides no net employment gain in any succeeding year. The method employed by IBERC rests upon a number of unstated but critically important assumptions about both the state of the labor market into which the displaced textile workers would be cast and the fates of those workers. The most important assumptions are that the displaced workers would enter a tight labor market in which they could find jobs in 10 to 15 weeks, and that none of the jobs they filled would entail competition. That is, none of the textile workers who found jobs would displace other unemployed workers who could have filled those jobs.

Regardless of whether one is analyzing new jobs created or current jobs saved, one can have no conclusions about the net economic value of those jobs without explicitly projecting the state of the labor markets in the period of concern. Low-skilled, displaced workers who enter a labor pool populated by other idle workers who would take jobs if they were available must compete with those workers for employment. Thus, any displaced textile or apparel worker who finds a job has by definition displaced another potential worker under such conditions.*/ The only way that one can say that a job saved has only transitory value is to demonstrate that the total demand for labor in the market of concern will expand to the point were the pool of surplus labor, including any displaced textile workers will become small relative to the number of workers displaced. In short, the jobs saved will have transitory value only in tight labor markets where the number of unemployed persons is very close to a frictional unemployment level.

ICF's labor analysis is based on explicit baseline projections of the 1987 and 1988 labor markets in the fifteen top textile and apparel producing states, and the estimation of net employment benefits reflects the fact that the baseline surplus labor pools in both 1987 and 1988 are large relative to the number of textile and apparel jobs potentially affected by HR 1154.

There is an additional point about IBERC's employment analysis which requires attention. IBERC claimed that there would be a decline in textile/apparel and footwear retailing employment associated with its calculated decline in textile/apparel and footwear consumption, and asserted that the decline in retailing employment would exceed the number of new production jobs created. IBERC concluded, therefore, that HR 1154 would cost the U.S. economy more jobs than it created. IBERC's method of analysis and its conclusion are both incorrect.

Basing an analysis of net employment effects on direct declines in retail employment due to textile/apparel and/or footwear consumption declines implies a fundamental misunderstanding of the economic relationships involved. If a purchaser decides not to buy a shirt because the price increased from ten dollars to $10.25, the purchaser still has ten dollars to spend on other goods or services. Similarly, if a purchaser does pay the increased price, that portion of the price increase which represents gains to producers represents spendable income which remains within the economy. In short, a significant proportion of any gross declines in direct retail sales due to declines in textile/apparel and footwear consumption will be offset by retail spending and employment gains in other sectors. The net economic loss associated with a quota is the proper measure of the cost of the quota to the economy. That portion of employment decline which has no offsets is reflected in the net economic loss associated with the quota.

---

*/ Such might not be the case for a worker having a scarce skill because the job specification would limit the number of eligible competitors.

There are a number of additional points about method which require careful examination. The first is the price basis for analysis. Domestic and imported textiles/apparel and footwear are first purchased at the manufacturer's price (wholesale price). Consequently, the manufacturer's price or wholesale price is the proper basis for analysis. Basing the analysis on retail prices for textiles/apparel and footwear, and assuming that wholesale price increases are marked up by 100 percent to get to retail, as IBERC did, will overstate economic costs by about 100 percent.

First, even if pricing worked as IBERC has assumed, the retailer's markup on any wholesale price increase would represent a transfer of income from the retail consumer to the retailer; that is an increase in the retailer's surplus. Since the transferred income would stay within the economy, it would not constitute a loss or cost to the economy.

Second, and more important, IBERC's assumption of a 100 percent markup on any wholesale price increase is incompatible with basic economic principles of pricing and competition. Suppose a retailer pays five dollars for a shirt, sells it for $10.00, and makes a profit of $1.00 or ten percent on the retail price after paying for sales personnel, rent, and other costs. Thus, four dollars of the $5.00 markup goes to cover the retailer's operating costs. Next, suppose that the wholesale price increases to $5.25. At a 100% markup on the wholesale price increase, the retail price would be $10.50. At such a price, the retailer's profit would increase from $1.00 to $1.25 and the profit margin from 10 percent to nearly 12 percent. Such a result would imply that retailers overall have significant market power and/or an effective cartel, and furthermore that retailers were not maximizing their profits before the wholesale price increase. If the retailing industry is competitive, as the retailers who have testified before this Subcommittee have described it, then any extra profits due to markups on wholesale price increases would be very quickly competed away.

ICF's analysis of the effects of the quota reflects the observation that imported textile/apparel products and domestic products are close substitutes. That is, the products are undifferentiated in the eyes of purchasers except on the basis of price. The vast majority of textiles which are traded are commodity products which have standard specifications, e.g., cotton greige goods, polyester/cotton printcloth. The vast majority of apparel trade is in products which are produced to designs and specifications determined by U.S. purchasers. Standardized products are sourced to specification from low cost suppliers. Finally, products which are similar in design and quality, whether produced domestically or overseas are in general sold at the same retail price points even through the U.S. product may cost the retailer more. This does not mean that there is discriminatory pricing. It means that the retailer must charge the same price for identical merchandise because consumers would not buy any of the higher priced version of the product if prices were different. There are, of course, some imported textiles and apparel products which are not perfect substitutes for domestic products. Rare fabrics, bond street suits, and Paris originals would fall into that category. Such products, however, account for only a very small portion of the market. In short, U.S. textile and apparel producers can make virtually any fabric or garment which is presently imported, and vice versa.

The premise that imported and domestic products are close substitutes means that any reduction of imports will in general be replaced one-to-one by domestic production, except to the extent that the reduction of imports affects prices and consumption in the market as a whole. These comments apply both to imported textile/apparel products and to footwear.

IBERC's analysis presumes that domestic and imported textiles/apparel are imperfect substitutes, and further, that the degree of substitutability as measured by "cross elasticities of demand" is relatively low. Such a presumption means that any limitation of imports would produce a smaller increase in domestic production and a greater increase in price than under the condition of close substitutability.

The next issue which I would like to touch on is that of the domestic supply response to price increases associated with HR 1154. If a given percent price increase will cause a relatively larger percent increase in production of a good, supply is said to be elastic; and if the percentage production increase is less than the percentage price increase, then supply is said to be inelastic. Empirical estimates of short-run textile/apparel supply elasticities based on published government and academic studies of the industry range from a low of about 1.0, which is unusually inelastic for any industry, to a high of more than 50, which approaches perfect or infinite elasticity. The wide range of estimates reflects the fact that it is difficult to empirically estimate supply elasticities under the best of circumstances. ICF, therefore, based its supply elasticity estimate on assessments of the literature and the industry characteristics which determine supply elasticity. The apparel industry is labor intensive, requires few hard-to-find skills, and plant capacity can be added simply by increasing the number of work stations and/or renting additional space. Since it is easy to expand production without a significant increase in unit costs, apparel supply should be highly elastic to price if access to fabric does not constitute a bottleneck. The supply of textiles should also be relatively elastic in the short run. Access to labor and raw materials constitutes no barrier to increased production, the industry has available capacity, and capacity expansion lead times are short. In view of the preceding industry characteristics, ICF employed a supply elasticity of 5.0 for textile production, and derived from that figure consistent apparel supply elasticities which are close to 5.0. I should note that the supply elasticity of 5.0 is the same as that employed by ICF in an analysis of the textile industry for the EPA which was completed in 1985, well before any conversations with FFACT.

IBERC, in contrast, assumed a domestic textile/apparel supply elasticity of 1.0, which is characteristic of an unusually inelastic supply. Such an assumption is difficult to support in view of the relevant industry characteristics. Moreover, IBERC's prior analysis of the Trade Enforcement Act of 1985 assumes an infinitely elastic domestic textile and apparel supply. Assuming a relatively inelastic domestic textile/apparel supply means that a given change in the quota will result in less U.S. production and higher prices than if supply were assumed to be more elastic.

Finally, ICF's analysis of the economic costs and benefits of HR 1154 explicitly recognizes that the production of textiles (fabric) and apparel occurs in separate industries which are vertically related. Fabric is for the most part an intermediate input into apparel production, while apparel is a final good. Changes in quotas will have production and price effects which can only be estimated by modeling the input and output relationships involved in producing fabrics, woven and knit apparel, and other intermediate and final products. IBERC's model in contrast is a single aggregate model which does not recognize that distinctly different industries are involved. Consequently, IBERC's basic analysis of changes in production and prices is invalid. Moreover, IBERC's figures on the basic value of domestic textile and apparel production double-count the value of intermediate and final goods. (The value of final goods includes the value of all intermediate goods, so it is incorrect to add the value of intermediate goods to the value of final goods in estimating the baseline value of U.S. production). As a result, IBERC's estimated economic costs in its domestic textile and apparel market are overstated by the proportion of double counting in its baseline U.S. output figures.

* * * *

William R. Cline
Senior Fellow
Institute for International Economics
July, 1987

THE FUTURE OF WORLD TRADE IN TEXTILES AND APPAREL

Summary chapter and selected statistical materials from the book to be published in September, 1987.

EXECUTIVE SUMMARY

Industry Health -- Textiles and apparel are in more robust economic health than might be expected in view of proposals for higher protection. Neither sector is deindustrializing in terms of absolute production levels. Profits relative to capital have been consistently high in apparel. Recent profit rates relative to equity in textiles have been higher than the industrial average. Higher US productivity per worker to a considerable extent offsets higher wages, in comparison to foreign competitors.

Employment -- The number of jobs has declined from its 1973 peak by 31.8 percent in textiles and 19.1 percent in apparel. The bulk of this decline is attributable to rising labor productivity rather than imports. Over the past 25 years, productivity growth has reduced textile employment by 3 to 4 percent annually, while import growth has caused only one-third to one-half percent annual reduction. In apparel, job reductions from productivity growth have been two to three times as large as those attributable to rising imports (except for 1982-86, when the two influences were equally important).

The Role of Trade -- The textiles sector had a trade surplus in 1980 before the overvaluation of the dollar, and even today import penetration remains at a low 9.5 percent (value basis, wholesale level). The capital- and technology-intensive nature of textiles makes the sector internationally competitive at an appropriate exchange rate. Apparel is labor intensive and difficult to mechanize, and the United States does not have a natural comparative advantage in this sector but instead has used rising protection to stem the evolution of trade toward comparative advantage. Even so, the import penetration ratio correctly measured is 31.1 percent in apparel, rather than 50 percent or higher as suggested by some groups.

Explaining Trade Trends -- Since the early 1970s, imports have grown at about the 6 percent annual rate originally envisioned under the Multi-fiber Arrangement (in physical volume, 4 percent in textiles and 7 percent in apparel for 1972-86). MFA quotas clearly slowed import growth in the 1970s. But the restrictions act like a wire-mesh screen, and as the macro-economic forces increased import pressure in the 1980s, import growth rates accelerated to 11 percent annually in textiles and 15 percent in apparel (1980-86, real value terms).

A quantitative model of trade, production and employment shows that the strengthening of the dollar accounted for half or more of the rise in imports from Europe. Even for apparel imports from developing countries, the rising dollar accounted for one-fourth of the rise in imports (and the share was higher in textiles). Real exchange rate indexes for textile and apparel supply show the dollar strengthened in the period 1981-85 relative to the currencies of the developing countries as well as of the industrial countries. The other three-fourths of the increase in apparel imports was attributable (in roughly equal parts) to long-term trends in supply (following an "S-curve" of rapid initial growth with gradually decelerating rates), falling foreign price, and expansion of US income. Recent correction of the dollar (and deceleration of the long-term apparel trend) suggest a likely slowdown of import growth in the future.

Adjustment -- There are two types of adjustment: revitalization and downsizing. The textile sector has accomplished both, as its labor productivity has grown considerably faster than that of manufacturing industry overall while it has cut back the level of employment. Adjustment has been more sluggish in apparel, where productivity growth has been below the industrial average and employment downsizing has been modest. US adjustment in the sectors pales by comparison with that in Europe and Japan, where employment in the two sectors has fallen typically by some 50 percent. Labor downsizing has also been much more limited than in other pressured sectors in the United States, such as steel and footwear. Experience in such countries as Japan and Germany shows the need for an outright acceptance of the goal of reducing the size of the industry.

Protection -- With nearly 2 million workers, the textile and apparel sectors have had the political clout, and perceived economic importance, to marshal special protection against imports for more than two decades. "Voluntary" export quotas have restricted textile and apparel trade internationally since the early 1960s, in cotton products, and since the negotiation of the Multi-fiber Arrangement (in 1974, renewed in 1977, 1981, and 1986), in most other fibers.

The relative lack of adjustment in apparel has been possible only through increasing levels of protection. Today US tariffs stand at about 25 percent, and quota protection raises the total tariff-equivalent to approximately 50 percent. Successive tightening of quota regimes under the MFA has more than offset tariff reductions. In textiles, the rise in quota restrictions has approximately neutralized negotiated declines in tariffs. Critics have charged that the Reagan administration failed to implement restrictions appropriately during the import rise of 1980-86, but the intensification of macroeconomic pressures for imports during this period rather than lax enforcement explains the rise. The administration actually took several tightening measures, especially in 1986 when it broadly closed off much of the flexibility that had permitted a relatively rapid import increase (by extending coverage to excluded materials, negotiating highly restrictive bilateral agreements with the big three Far Eastern suppliers that permitted only 1 percent or lower annual growth, and replacing surveillance treatment with explicit quotas).

Cost of Protection -- This protection imposes a heavy burden on the US economy. Consumers pay $20 billion annually (conservatively estimated) in added costs as the result of higher import prices and induced increases in prices of domestically produced textiles and apparel. The cost amounts to some $50,000 per job preserved on a conservative basis including jobs in input-supplying sectors, and approximately $100,000 per job in direct production of textiles and apparel. The net costs to the economy after deducting transfers to producers and government tariff revenue are also high, approximately $8 billion annually.

The burden of protection is borne disproportionately by the poor. The poorest 20 percent of households pay an estimated 3.6 percent of their income for protection costs in textiles and apparel, while the brackets 20-80 percent pay approximately 1 percent. Because protection increases firm profits accruing to the high-income groups (owners of equity capital), protection increases income of the top 20 percent of families by 0.3 percent, giving a clearly regressive impact on income distribution. The poor also suffer in qualitative terms because protection suppresses the supply of lower-cost, lower-quality imports, as suppliers seek to upgrade to higher quality products within the fixed physical quota limits.

The political objective of this protection is to protect jobs. Yet few if any additional net jobs are preserved or created, because total employment is determined primarily by macro-economic policies. Instead, protection has the effect of earmarking for the textile and apparel sectors specifically approximately 200,000 jobs that would otherwise migrate to other sectors. There would be some adjustment costs from this reduction of employment in the two sectors. But the unemployment would not be permanent; government surveys show that displaced workers in apparel are unemployed for a median period of about 25 weeks, and only 13 weeks in textiles. Moreover, their salaries in new jobs are approximately the same as before (2-1/2 percent lower in apparel, and actually 3 percent higher than before in textiles). The economic benefits of avoiding this temporary unemployment fall far short of the cost of protection.

Proposals for New Restrictions -- The proposed Textile and Apparel Trade Bill of 1987 would replace voluntary export quotas with global import quotas, and permit annual quota growth of only 1 percent. This measure would close off the existing flexibility in the protective regime for import growth through geographical diversification to new, uncontrolled suppliers. For the first time, it would restrict imports from Europe and Canada, inviting retaliation. The models of protection and of trade and production are applied to estimate the impact of the proposal. Because a growth path of 1 percent annually would cause an ever-growing gap between permitted imports and the import level that would occur under present policy, the costs of the proposal escalate sharply over time. At first, because of the pause in import growth resulting from dollar correction, the consumer cost would average only about $1.3 billion annually (1987-89). However, the costs would escalate to $20 billion by 1996 (at 1986 prices), doubling the current cost of protection. The average annual cost of the new protection over the decade would be $7 billion (at constant prices). In return, the new protection would preserve only some 20,000 jobs by 1989-90, although the number would rise to 179,000 by 1996.

Projections -- The quantitative model of trade, production and employment, which provides a highly accurate replication of actual trends in 1970-86, is used to project sectoral trends through the year 2000. In the base case of no change in trade policy, production rises significantly in both textiles and apparel, but rising labor productivity reduces employment by 20.5 percent in textiles and 17.6 percent in apparel. Correction of the dollar provides significant help in decelerating import growth, which, after an initial pause, stabilizes at approximately 7 percent annually in apparel. Imports actually decline significantly (through 1989) and exports rise briskly in textiles, where the exchange rate plays a larger role. The projections reject the conclusion of some groups that the two sectors will be utterly devastated in the absence of tighter protection.

Projections are also made for alternative cases of import liberalization and higher protection. Liberalization that would broadly eliminate quotas by the year 2000 and moderately reduce tariffs would reduce textile output growth and cause some cutback in apparel output below current levels. Import liberalization would boost the reduction in sectoral employment by the year 2000 from 20.5 percent in the base case to 25.1 percent in textiles, and from 17.6 percent to 29.7 percent in apparel. In contrast, higher protection along the lines of a 1985 bill would limit employment reduction over the period to 16.9 percent in textiles and 10.1 percent in apparel. Because import penetration is low in textiles, trade policy has only limited effects on this sector, even after taking account of the indirect impact of apparel liberalization (or protection) on textiles working through inter-industry relationships of intermediate supply.

A crucial implication of the projections is that even with import liberalization, the pace of employment reduction (2 percent annually in textiles and 2.5 percent in apparel) would be well below the pace of natural employment attrition (3.8 percent annually from retirement and voluntary quits in textiles, and 4.8 percent in apparel).

Policy Implications -- If the American public is prepared to pay $20 billion or more annually in extra consumer costs, with regressive distributive effects among income classes, for the purpose of earmarking approximately 200,000 additional jobs for the specific sectors of textiles and apparel -- but with little if any net job creation overall -- then the present policy of import restriction under the MFA should be continued. If the public is willing to virtually double the costs (and the number of jobs earmarked) by the year 1996, it would be appropriate to enact the proposed 1987 textile and apparel trade bill.

If instead the public considers it appropriate to protect *people* rather than *positions*, the proper policy direction would be a 180-degree turn from the trend of the past three decades. In this case, the proper policy would be the gradual elimination of special protection for textiles and apparel, combined with adjustment assistance for affected workers.

One approach would be to convert existing quotas to "tariff-rate quotas" designed to replicate initially the protective effect of current quotas. The tariff-rate quota would not physically block imports above the quota-threshold level but instead would apply a punitive tariff surcharge for additional imports (set at 25 percent beyond the normal tariff for apparel and 15 percent for textiles). These surcharges would then be reduced gradually (at a rate of 1-1/2 percentage points annually) until they disappeared early in the initial years of the next century. This program is the same as that for which the "liberalization" projections are made, so labor displacement would be lower than annual attrition from retirement and voluntary quits. Because some plant closings would cause pockets of concentrated job losses, labor adjustment assistance would be necessary, funded out of general labor adjustment assistance funds (including the $1 billion proposed by the Reagan administration in the 1988 budget), supplemented by any revenues received under the surcharge provisions.

If industry and labor groups considered tariff-rate quotas unreliable, outright quotas could be used instead, with growth rates high enough that by the year 2000 they would no longer have any restrictive effect. The quotas could be auctioned to generate additional revenue for adjustment assistance.

To encourage reciprocal liberalization by foreign suppliers of textiles and apparel, as well as parallel liberalization of markets in Europe, it would be possible to limit the benefits of liberalization to members of a new Arrangement for Open Trade in Textiles and Apparel. Countries such as Korea and Taiwan would only become members (and thus eligible for US liberalization) if they pledged liberalization of their own markets, in the first instance in textiles and apparel but also more broadly. A longer timetable for liberalization would be permitted for lesser-developed countries and those with severe debt problems. Developing countries, in turn, would make their own import liberalization available to exports from Europe only if the EC also joined the program and liberalized its own textile and apparel imports. The proper arena for negotiation of a program along these lines would be in the new Uruguay Round of multilateral trade negotiations.

July 23, 1987

COMMITTEE ON
RECEIVED
JUL 24 1987
WAYS AND MEANS

Honorable Dan Rostenkowski
Chairman, Ways and Means Committee
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Rostenkowski:

On behalf of the JCPenney Company, I strongly urge you to vote against H.R. 1154, the Textile and Apparel Act of 1987. Whatever justification might have existed for this protectionist legislation when it was introduced, it does not exist now. This bill will do far, far more harm than good.

As you know, no U.S. retailer can stay in business unless it sells what its customers want. This bill ignores that fundamental fact. When purchasing textile and apparel products, American consumers look at price, quality, and style. This bill would affect all three.

As to price, it artificially constrains the market, limiting total import growth to unrealistically low levels (zero in the case of non-rubber footwear). It will arbitrarily inflate textile, apparel, and footwear prices. Consumer costs will be increased by $10 billion annually. Those consumers who can afford to pay more will do so. Those who cannot will make do with little, or do without. Retailers will sell less, and over 50,000 retail jobs will be lost.

The bill affects quality. There are high quality textile and apparel producers in the U.S. just as there are overseas. Relatively speaking, in the U.S. these are moderate wage jobs. If foreign producers are forced to restrain their U.S. sales, they will only be able to increase profits by diverting their U.S. targeted production towards higher quality, higher margin goods. Just as the "voluntary restraints" on auto imports allowed some foreign producers to dominate the high end of the American automotive market, mandatory restraints in H.R. 1154 could cause the same to happen in textiles and apparel. The irony is that the better paid American workers will gradually be relegated to producing the lower margin, lower quality goods.

H.R. 1154 ignores the third fundamental of textile and apparel sales - style. Traditionally in the U.S., selection has been dictated by the marketplace rather than by government fiat. H.R. 1154 will undercut that simple economic reality. Consumers won't buy what they don't want. The bill essentially freezes inports at 1986 category-by-category levels. Categories will not rise and fall to match rapidly changing consumer tastes. Cotton slacks may become twice as popular as cotton skirts, but, under the bill, imports of slacks may not rise by

J. C. Penney Company, Inc. 1156 Fifteenth Street, N.W., Washington, D.C. 20005

more than one percent per year. Thus, as styles change, some products will go begging while others will be in short supply. Retailers, obviously, cannot afford to stock what we cannot sell. Selections of desirable items will be artificially limited, and their prices, of course, will rise. This short-fall will not be made up by domestic producers. The U.S. textile industry is already operating at 90% capacity.

Now is not the time to shut-out our trading partners. Nor is it the time to invite retaliation. Now is not the time to sacrifice retail jobs. And now, most certainly, is not the time to penalize American consumers.

We at JCPenney believe that if you will give this bill a current. critical, economic assessment you will agree that H.R. 1154 is an idea whose time has passed. We urge you to vote against it.

Sincerely,

Russell H. Pearson
Senior Federal Legislative Manager

RHP/MBD/cah

JERIE SALES CO.

1001 AVENUE OF THE AMERICAS • NEW YORK, NY 10018
TEL: (212) 869-5000 TELEX: 420281 or 236831 (JERI U)

COMMITTEE ON
RECEIVED
MAR 10 1987
WAYS AND MEANS

March 4, 1987

The Honorable Dan Rostenkowski
U.S. House of Representatives
Washington, DC 20515

Dear Sir:

As importers of quality fabrics, for men's shirt manufacturers in the United States, I am greatly disturbed about the possibility of passage of the pending textile trade bill, now before the U.S. Congress.

The textile products we import, mostly from Japan, are of a quality not available in this country. The domestic textile mills are both unable and unwilling to produce these fine quality fabrics for American apparel factories. The Japanese mills, on the other hand, are designed to accommodate, the high quality, specialized designs and shorter runs required by the better quality portion American shirt manufacturers.

We supply a large number of American manufacturers, employing thousands of Americans throughout the United States. If these factories are denied access to better fabrics, from the Far East, they will have to close their doors, putting large numbers of American workers out of work.

I am sure you can see the importance of not restricting the flow of better quality textile fabric imports into the United States, these restrictions being response to pressure from domestic textile fabric mills who are not willing or able to supply this demand from American apparel manufacturers.

I am very willing to come before the Congressional Committee debating this textile bill and give detailed testimony on this important issue.

Sincerely yours,

JERIE SALES CO.

Anthony V. Cocheo

RECEIVED
MAR 11 1987

STATEMENT BY CONGRESSMAN ED JONES

BEFORE THE SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS

MAY 7, 1987

MR. CHAIRMAN, IT IS WITH PLEASURE THAT I COME BEFORE THE SUBCOMMITTEE ON TRADE TODAY TO EXPRESS MY SUPPORT OF H.R. 1154, THE TEXTILE AND APPAREL TRADE ACT OF 1987. THIS LEGISLATION IS OF VITAL IMPORTANCE TO MY CONGRESSIONAL DISTRICT; MY STATE; AND OUR NATION.

H.R. 1154 WOULD, AS YOU KNOW, ESTABLISH MUCH-NEEDED QUOTAS ON ALL TEXTILES AND TEXTILE PRODUCTS BASED ON THE LEVEL OF IMPORTS FOR 1986, WITH ONE PERCENT GROWTH ALLOWED EACH YEAR. FOOTWEAR IMPORTS WILL ALSO BE LIMITED TO 1986 LEVELS. THIS BILL WILL PROVIDE AN EFFECTIVE REMEDY TO THE PROBLEMS FACED BY OUR DOMESTIC TEXTILE AND FOOTWEAR INDUSTRIES. IT REPRESENTS A COMPROMISE FROM THE LEGISLATION APPROVED LAST YEAR. THIS BILL IS MORE GENEROUS TO OUR TRADING PARTNERS BY THE ABSENCE OF REQUIRED ROLLBACKS; IT IS CONSISTENT WITH THE GENERAL AGREEMENT ON TARIFFS AND TRADE; IT ALLOWS THE ADMINISTRATION FLEXIBILITY IN ITS NEGOTIATIONS; AND IT DOES NOT PENALIZE ONE SPECIFIC COUNTRY OVER ANOTHER.

THE NECESSITY OF THIS TYPE OF LEGISLATION IS OBVIOUS TO ME. THE STATISTICS CLEARLY SHOW THE DEVASTATING IMPACT OF IMPORTS ON BOTH THE DOMESTIC TEXTILE AND FOOTWEAR INDUSTRIES. IMPORTS NOW COMPRISE OVER ONE-HALF OF THE U.S. APPAREL MARKET AND EIGHTY-FOUR PERCENT OF THE DOMESTIC FOOTWEAR MARKET. TEXTILE AND APPAREL IMPORTS HAVE TRIPLED SINCE 1980 AND HAVE DOUBLED SINCE 1982. BECAUSE OF THESE IMPORTS, THE APPAREL AND TEXTILE INDUSTRIES HAVE EXPERIENCED A LOSS OF GREATER THAN 1,500 FACTORIES, OVER 400,000 JOBS, AND 750,000 JOB OPPORTUNITIES TO FOREIGN NATIONS SINCE 1980. THE SITUATION IN THE FOOTWEAR INDUSTRY IS CERTAINLY NO BETTER. IN 1986 ALONE, 70 SHOE FACTORIES HAVE CLOSED. THESE LOSSES ARE ADDED TO THE 308 FACTORIES CLOSED SINCE 1981.

NOT ONLY HAVE I WATCHED THE DECLINING STATISTICS SHOWING JOBS LOST AND INDUSTRIES LOST IN OUR COUNTRY OVER THE YEARS AS A DIRECT RESULT OF INCREASING TEXTILE AND FOOTWEAR IMPORTS, BUT I HAVE ALSO SEEN THESE AFFECTS FIRST-HAND IN MY CONGRESSIONAL DISTRICT AND IN MY STATE. THE FOOTWEAR INDUSTRY ALONE IS THE MAJOR EMPLOYER IN ONE OF MY COUNTIES AND IS THE SECOND OR THIRD MAJOR MANUFACTURING EMPLOYER IN FOUR OTHER COUNTIES. CURRENTLY, FOUR OF THE FIFTEEN COUNTIES I REPRESENT HAVE OVER SIXTEEN PERCENT UNEMPLOYMENT. FOOTWEAR PLANTS HAVE CLOSED IN TWO OF THESE COUNTIES IN THE PAST TWO YEARS ALONE, LEAVING HUNDREDS UNEMPLOYED. IN 1985, TENNESSEE LOST SEVEN FOOTWEAR FACTORIES AND, MOST RECENTLY IN 1986, SIX PLANTS WERE CLOSED PERMANENTLY. THE CLOSING OF THESE FOOTWEAR AND TEXTILE FACTORIES IS CERTAINLY A CONTRIBUTING FACTOR TO THESE HIGH UNEMPLOYMENT RATES IN MY CONGRESSIONAL DISTRICT AND TO THE DEPRESSED ECONOMIC CONDITION IN THOSE AREAS.

LET ME STRESS THAT TEXTILE AND FOOTWEAR MANUFACTURERS ARE VITAL TO THE RURAL ECONOMIES IN WHICH MOST ARE LOCATED. IN A COUNTY WHERE THE TOTAL WORK FORCE MAY BE AROUND 6,000 PEOPLE, ONE PLANT CLOSING IS DETRIMENTAL TO NOT ONLY THOSE LOSING THEIR JOBS, BUT TO THOSE SMALL BUSINESSES AND COMMUNITIES WHO DEPEND ON THEIR SUPPORT FOR SURVIVAL. MANY OF THE EMPLOYEES OF THIS TYPE OF FACTORY ARE FEMALE AND PROVIDE THE ONLY SOURCE OF INCOME FOR AN ENTIRE FAMILY. MANY OF THESE FACTORIES ARE THE PRIMARY, IF NOT ONLY, SOURCE OF EMPLOYMENT FOR THESE AMERICANS. NEEDLESS TO SAY, ONCE A FACTORY IS CLOSED, THERE IS USUALLY NO ALTERNATIVE EMPLOYMENT FOR THOSE IN NEED OF A JOB.

ALTHOUGH THE JOBS OF AMERICANS ARE OF PRIMARY IMPORTANCE TO ME IN MY SUPPORT OF THIS LEGISLATION, ANOTHER CONCERN I HAVE, WHICH HAS NOT BEEN THE FOCUS OF ENOUGH ATTENTION, IS OUR COUNTRY'S CAPACITY TO CLOTHE AND EQUIP OUR ARMED FORCES. IN TESTIMONY LAST YEAR BEFORE THE HOUSE ARMED SERVICES SUBCOMMITTEE ON INVESTIGATIONS, EXPERT WITNESSES WARNED OF FUTURE DEPENDENCE ON FOREIGN IMPORTS TO SUPPLY THE TEXTILE AND FOOTWEAR NEEDS OF OUR MILITARY. WITH INCREASING NUMBERS OF IMPORTS AND A DECLINING INDUSTRIAL BASE IN THE TEXTILE AND APPAREL INDUSTRY, A SERIOUS PROBLEM IS INEVITABLE UNLESS SOME ACTION IS TAKEN. THE ANNUAL REPORT ON THE CAPABILITY OF THE DOMESTIC TEXTILE AND APPAREL INDUSTRIAL BASE BY THE DEPARTMENT OF DEFENSE LAST YEAR STATED: "DIMINISHING SOURCES IN THE TEXTILE INDUSTRY HAVE SERIOUSLY AFFECTED THE PRODUCTION BASE SINCE FISCAL YEAR 1984." THIS TREND WAS REPORTED AS BEING DIRECTLY RELATED TO FOREIGN COMPETITION WITHIN THE INDUSTRIES. THE TEXTILE AND APPAREL INDUSTRY NOT ONLY SUPPLIES THE MOST OBVIOUS TEXTILE-RELATED ITEMS SUCH AS UNIFORMS AND CLOTHING, BUT ALSO CONTRIBUTES TO THE MANUFACTURE OF MANY OTHER MILITARY ITEMS SUCH AS HELMETS, PARACHUTES, BLANKETS HELICOPTER BLADES, MISSILE CASINGS, LAUNCH TUBES, GAUZE AND BANDAGES. THESE AND AROUND 300 OTHER COMBAT ESSENTIAL PRODUCTS UTILIZE SOME TYPE OF TEXTILE OR MAN-MADE FIBER IN THEIR PRODUCTION. I THINK MOST OF US WILL AGREE THAT IT IS IMPERATIVE THAT OUR COUNTRY MAINTAIN A TEXTILE INDUSTRIAL BASE THAT COULD RESPOND TO A NATIONAL EMERGENCY OR MOBILIZATION. A STRONG MANUFACTURING BASE IS ESSENTIAL TO OUR NATIONAL DEFENSE AND SHOULD, THEREFORE, BE CONSIDERED A NATIONAL PRIORITY. WE CAN ONLY ACCOMPLISH THIS THROUGH LEGISLATION, SPECIFICALLY H.R. 1145.

MR. CHAIRMAN, THIS IS NOT THE FIRST OCCASION ON WHICH I TESTIFIED IN SUPPORT OF A REMEDY TO OUR ON-GOING IMPORT PROBLEM. IN 1985, I, ALONG WITH OTHER COLLEAGUES, APPEARED BEFORE THE INTERNATIONAL TRADE COMMISSION SEEKING AN IMPORT RELIEF PLAN FOR FOOTWEAR. AT THAT TIME, SHOE IMPORTS COMPRISED ONLY 72 PERCENT OF OUR DOMESTIC MARKET. NOW, SCARCELY TWO YEARS LATER, THIS FIGURE HAS RISEN TO AN 84 PERCENT IMPORT SHARE OF THE DOMESTIC MARKET.

FACTORY AFTER FACTORY IS CLOSING ACROSS OUR COUNTRY BECAUSE OF IMPORTS AND JOB AFTER JOB IS BEING LOST TO FOREIGN NATIONS. THE DOMESTIC TEXTILE AND FOOTWEAR INDUSTRIES HAVE TO BE ALLOWED TO COMPETE FAIRLY IN THE WORLD-WIDE MARKET. H.R. 1154 PROVIDES EFFECTIVE RELIEF TO THE IMPORT PROBLEM WE FACE IN A MODERATE AND RESPONSIBLE MANNER. THOUSANDS OF AMERICAN WORKERS HAVE LOST THEIR LIVELIHOODS OVER THE PAST SEVERAL YEARS AND THERE IS NO STOPPING THAT TREND WITHOUT POSITIVE ACTION BY CONGRESS. DESPITE THE STATISTICS SHOWING IMPORT PENETRATION, JOBS LOST, AND PLANT CLOSINGS, OUR GOVERNMENT HAS DONE NOTHING TO HELP. WE, IN CONGRESS, CAN CHANGE THAT INACTION TO ACTION BY PROVIDING OUR DOMESTIC TEXTILE AND FOOTWEAR INDUSTRIES A MARKET IN WHICH THEY MAY BE COMPETITIVE. THE FUTURE OF THESE DOMESTIC INDUSTRIES AND THE JOBS THEY PROVIDE ARE AT STAKE. H.R. 1154, THE TEXTILE AND APPAREL TRADE ACT OF 1987, CAN PROVIDE THE MEANS TO ACCOMPLISH THIS GOAL OF SAVING THE TEXTILE AND APPAREL INDUSTRY. WITHOUT THIS LEGISLATION, THESE DOMESTIC INDUSTRIES WILL BE LOST.

MR. CHAIRMAN, I URGE THE SUBCOMMITTEE ON TRADE TO TAKE POSITIVE ACTION TO SAVE THE TEXTILE AND APPAREL AND FOOTWEAR INDUSTRIES.

THANK YOU.

Los Angeles Area
Chamber of Commerce
404 South Bixel Street
P.O. Box 3696, Terminal Annex
Los Angeles, California 90051-1696
(213) 629-0711

RAY REMY
President

May 5, 1987

MAY 12 1987

Honorable Sam M. Gibbons
Chairman. Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Bldg.
Washington, D.C. 20515

Dear Senator Gibbons:

On behalf of the Los Angeles Area Chamber of Commerce I wish to indicate an opposition to H.R. 1154 (Derrick), the Textile and Apparel Trade Act of 1987. We believe this legislation would impose overly restrictive quotas on importation into the United States of certain textiles and textile products.

H.R. 1154, provides for quotas on all imports of textiles, apparel and textile-related products, from all countries. It would impose a maximum growth rate of one percent per year, fixed at 1986 import levels, and would be permanent in duration. Further, the President would be required to submit an annual report to Congress on the administration of the Act.

The textile and apparel industry is already one of the most heavily protected industries in the United States. Under the Multifiber Arrangement (MFA) coverage has been expanded to previously uncontrolled fibers. It also enables us to combat destructive import surges by unilaterally imposing restraints for two years and mandates cooperation from exporting countries to counter fraud and circumvention. We already have bilateral textile agreements establishing import control quotas with about 40 countries. We have tightened the Customs' against quota fraud and circumvention and implemented new textile rules of origin which have made legal quota evasion more difficult despite intense international criticism.

Protectionism in this form is nothing more than the sacrifice of jobs in one industry to save jobs in another. Ambassador Yeutter has stated that "its (H.R. 1154) attachment to a trade bill would kill the bipartisan, cooperative spirit needed to produce growth-oriented, market-opening legislation".

Honorable Sam H. Gibbons
May 5, 1987
Page two

The hearings coming up before your committee will consider the current operation of the textile import quota program, the competitive conditions of the textile, apparel, and footwear industries, and the need for legislation to mandate further controls on imports.

In 1985 the Los Angeles Area Chamber of Commerce opposed passage of H.R. 1562. In 1986 we opposed the attempt to override the President's veto. In 1987 we strongly urge your committee's recommendation to indicate no need for legislation such as the Textile and Apparel Act of 1987.

Sincerely,

Ray Remy

Ray Remy
President

RR/pc

cc: Members, Subcommittee on Trade
House Ways and Means Committee

JOHN P. MURTHA
12TH DISTRICT, PENNSYLVANIA

COMMITTEE:
APPROPRIATIONS

Congress of the United States
House of Representatives
Washington, D.C. 20515

STATEMENT SUBMITTED BY U.S. CONGRESSMAN JOHN P. MURTHA BEFORE THE TRADE SUBCOMMITTEE OF HOUSE WAYS AND MEANS COMMITEE ON TEXTILE IMPORTS

Chairman Gibbons and Subcommittee Members

During the course of these hearings you will be overwhelmed with figures and facts. While they will state the case for the need for action on limiting textile imports very well, I am sure you do not need any more figures. Instead, I would like to center my remarks on two aspects of this problem.

As Chairman of the Executive Committee of the House Steel Caucus, I recently chaired a hearing with members of the Wilson Institute. They outlined for the Caucus members very well, the perception of foreign countries toward U.S. trade policy: those countries believe Congress is a paper tiger, they believe the Administration dictates trade policy to us. In Japan recently, our trade negotiators were not even granted a meeting with their trade minister and their agricultural minister. The foreign countries simply believe we are all talk on trade, and no action.

If that perception is going to be reversed, it is going to be the responsibility of Congress. The record trade deficits, the lack of progress in negotiating any kind of reasonable agreements make it clear that foreign countries plan to delay, to confuse, to promise and in the end to do nothing to reach decent, fair agreements with the United States. There will be trade action, trade fairness, only if Congress forces such action. Only if we have quotas and tariffs in place, only if it is clear, then will we see any progress on the trade issue.

The other point I want to make is that behind those important numbers which tell the story of the problems in the textile industry are the faces and lives of thousands of American workers. These are Americans I have known in the area I represent in Congress. These are hard-working, dedicated Americans who only want a chance to do what they do best, who only want a chance to earn a decent, respectable living and take care of their families, see their children grow up in a solid home and a sound community. And these folks cannot understand why we allow our jobs to go overseas to unfair competition, why we won't stand up to these countries and demand our fair share of international trade and fair treatment for the leadership we've voluntarily provided to help many of these foreign economies to grow.

If we are to see any improvement in the trade picture, the emphasis must come from Congress on bills such as the textile quota bill. And the approval of passage of such legislation will go a long way toward convincing the American people that their government will stand up for what is right and will stand up for their jobs and communities.

I urge the Subcommittee to approve this legislation.

-#####-

Statement of
National Knitwear and Sportswear Association
386 Park Avenue South, New York City, N.Y. 10016
before the
Subcommittee on Trade, Committee on Ways and Means
U.S. House of Representatives

May 26, 1987

SUMMARY

The National Knitwear and Sportswear Association representing sweater and knitwear makers around the country supports the enactment of H.R. 1154 in light of the evident inability of the present textile and apparel import control program to provide effective relief from the continuing growth of imports at rates faster than domestic market and production.

Runaway imports of ramie-blend garments and other products generated to avoid existing quota arrangements, and the prolonged delays in taking action to bring those products under control demonstrate both the weakness of the existing "negotiating" approach. The final actions showed what could have been done had the will existed.

NKSA believes the legislation has been mischaracterized and misunderstood. The 1986 quota base provides a major concession to imports in this market, and those base quotas do not decline in subsequent years, regardless of the condition in the domestic market. In terms of the quota situation, all the risks of the future market are borne by the domestic producers, not by the quota holders. Under the bill, existing international agreements could remain in force. New arrangements could be developed to provide added growth for individual countries, including those in the Caribbean. The President would retain great flexibility to respond to particular foreign policy or other objectives.

Domestic producers and workers would benefit from the bill's cap on total imports as insurance against a repetition of the recent surge of imports of ramie products, and other similar occurrences in the future.

* * *

This statement is filed on behalf of the National Knitwear and Sportswear Association (NKSA),a national association representing knitwear and sportswear manufacturing firms including producers of sweaters, knit shirts and blouses, headwear, coordinated knit and woven sportswear, swimsuits, and various accessory products. In addition, the Association represents many supplier companies whose major customers for machinery, dyeing services, yarns and fibers are domestic manufacturers of the above products. The Association's membership is located throughout the United States.

The story of knitwear imports has been reported frequently to the Congress. Each year adds more chapters, and heightens the problem. Knitwear imports long ago crossed the billion garment annual limit, and there is no sign of a let up in this pressure.

As indicated in testimony presented to this Committee in 1985 by industry, government and to some extent even by importer and retail witnesses , sweaters and knitted shirts and blouses remain among the most heavily impacted product areas. At that time, the Commerce Department reported that imported sweaters accounted for some 68 percent of the total U.S. sweater market in 1984. Based on the latest available figures from that department, it appears that imports exceeded 70% of total U.S. sweater consumption in 1986.

Important progress in limiting the further growth of sweater imports was made last year in negotiations undertaken by the Administration just prior to the Congressional vote on overriding the President's veto of the textile quota bill. Those negotiations brought ramie and silk blend products under the MFA and under U.S. bilateral agreements with Hong Kong, Korea and Taiwan. Sweater imports from China of these fibers were subject to unilateral quota action under the MFA at the end of August, 1986.

The 1986 negotiations limited imports of these ramie and the silk blend sweaters from Hong Kong, Korea and Taiwan to the level of imports from those countries in 1985. Further growth of the quotas for the subsequent years of the agreements on these particular products was limited to one tenth of one percent per year. These actions show the parameters of policy making, what could be done if the policy decision is made, and with equal clarity, the failure of the system to establish a policy early enough to prevent major erosion of the domestic industry's home market position. In short, the same action one or two years earlier, as strenuously recommended by the domestic industry, could have prevented major erosion, provided domestic jobs and avoided the further unbalancing of the international market place by the usual Far East giants.

When finally taken, U.S. action on the ramie blends evidenced generosity to foreign quota-evaders that was neither necessary or justifiable on the merits. Quota levels based on 1985 yielded a major portion of the domestic cotton sweater market, and the delay in establishing these controls until late in 1986 meant that millions of dozens more were permitted to enter the market outside of the quota system.

--In 1986, sweater imports of these blends--the so-called "new MFA fiber" blends equalled total U.S. sweater production of all fibers.

Those dozens, 11,550,000 of them, or more than one hundred thirty eight million garments, were in addition to the more than 17,000,000 dozen sweaters of the traditional MFA fibers, cotton, wool and synthetic fibers, that were imported during the same year. In total 28,000,000 dozen sweaters, more than three hundred thirty six million sweaters were imported in that single year.

The quotas negotiated on the ramie etc. blends should, we repeat, should actually lower 1987 imports from the levels of actual imports reached in 1986. But there are two major caveats. They explain our doubts that the negotiating process by itself can work without new specific supporting legislation.

The first concerns enforcement. The Administration is not clearly and unequivocally committed to enforcing quotas when they actually bite. Overshipments are embargoed--sometimes belatedly-- foreign and importer pressure rises, and the goods are too often released. While "compensation" arrangements are made to charge the overshipments against subsequent years, the numbers frequently merge into a constant pattern of overshipments and charges, and occasionally quota increases. The damage done by the original surge of trade is not undone, and too often, the overshipment charges are submerged or even waived as part of the next negotiation. Frequently they are spread over a multiple of years, seasons and negotiations. Too often, we believe, they are lost in the miasma of data which buries the government in documents and prevents accurate counting of the trade and enforcement of the agreements.

Our second caveat recognizes the problem of inconsistency; and its handmaiden, delay. The government administration of the program can be stubborn and tough at times and weak and ineffective at other times. Perhaps its only consistency is in the fact that always, other policy objectives are given for the actions--or inactions--being discussed. Policies such as helping Philippine employment, or providing growth opportunities for developing countries, or improving market access for the Caribbean Basin countries, or maintaining access to foreign ports for the U.S. navy, or whatever. We have heard them all. We continue to hear them.

These "justifications" continue to surface in explanation for delay in the imposition of quotas under the MFA and for granting new starters category quotas larger than the annual output of all but the biggest American sweater knitting mills. And always, it seems, the output of every new sweater mill or shirt plant in the developing world is targeted on the U.S. market. It seems never to occur to foreign investors in new manufacturing countries that there are other markets to seek besides the U.S. market. Whether Indonesia or Sri Lanka, the Marianas or Panama, total plant output is supposed to be taken in by the U.S.

Too often, American government policy makers accept this as a natural fact of life. America's interest in overseas development is taken by them as a fundamental commitment to accept the total output of the project in question. The American sweater industry which now clings to the last thirty percent of total U.S. consumption, has taken enough. Other textile and apparel sectors are approaching similar conditions of market penetration. It must be slowed. That slow down cannot be produced without legislative action.

Some examples of recent quota actions and resolutions in this heavily impacted area are shown on the attached table. There we see just how fast new starters invade this market--even under the MFA. With total domestic sweater production in the area of 11.5 million dozen garments, providing access to new starters at levels in excess of 100,000 dozen per year while the giant suppliers still record their annual quota growth spells grave danger for the domestic industry under any but the most rosily optimistic of market scenarios.

These trends cannot be reversed by technology alone. Our industry has absorbed the latest in computerized electronic, knitting equipment. Congress has helped by passage of duty suspension legislation to enable the industry to acquire machines no longer made in the United States from foreign sources without payment of duties.

That legislation will need to be renewed during the coming years, and we continue to request its renewal as appropriate.

As has been pointed out in testimony before this Committee, China and other countries which account for the greatest portion of our imports and our import problem pay wages ranging from 10 cents to under $1.00 per hour. Knitting industry technology cannot overcome that gap at the present time. Style and fashion can move only so fast.

We continue to believe, as we stated in our last presentation to this committee, that "American workers can work with the best, but not for the least. Better and more effective protection is essential if this industrial sector and these jobs are to be preserved." The sorry record of the system, with no outer limits and with a near ritual of annual negotiation and renegotiation of agreements, special compensation arrangements, data "reconciliations," and the final release of embargoed goods is ultimately shown up on the trade bottom line. Whatever the explanations, whatever the extraneous policy justifications for this or that action or delay, the final truth is in the import numbers. They are not encouraging.

H.R. 1154 will enable the Administration and its successors to achieve policy consistency and meet their international responsibilities while preserving domestic job opportunities spawned by the domestic market.

The extremely high 1986 import base levels selected by the bill are a substantial risk for domestic manufacturers, a major gamble that this market will continue to grow at a rate of at least one percent per year. Without recession or let up. For if there is recession, and/or any segment of the market slows or declines for fashion or other reasons, the quota levels established in the bill do not reduce. They start from the massive numbers of 1986, and the grow.

Given this base, and the fact that it is substantially higher than the combined quota levels of all countries subject to quota under the agreements now in force, no quota reductions or agreement terminations would be required initially. Perhaps, at some point, an Administration might prefer to allow some agreements to terminate so that other suppliers could be given a greater market share and the giant suppliers shares be readjusted, downward. Or it might invoke established termination procedures in the existing agreements.
But none of these actions would be compelled by this bill. The very large global cap makes such actions unnecessary.

At the most, depending on the development of trade from countries presently not subject to control, some added controls or revisions of existing agreements might become necessary. But that is far from certain. It is surely not a basis for immediate concern, and even less a basis for foreign retaliation.

We cannot comprehend how this bill, with these massive 1986 import numbers built in as a base, can be described as protectionist or restrictive on the market, except by those who would prefer to see the disappearance of all domestically based competition. We believe that the loudest complaints about this bill are coming from those with established quota positions in particular countries, interests fearful that an Administration might prefer the bill's free market approach to the total quota situation to those of the present agreement structure. In such a circumstance, they might have to compete for market position, without the benefit of historical quota position. That could undercut their market dominance, and that is most assuredly what they fear losing.

But because the bill is so generous in establishing base levels, and is virtually open ended as to administrative techniques open to the President for achieving those objectives, the bill would not disrupt the international trading system or even the textile trading system--unless others chose to do so for their own reasons. By its own terms, the bill forces no agreements to be violated, compels no rollbacks, and provides no legitimate basis for international retaliation.

This is not to say that others will not threaten retaliation and trade war. Those are popular threats these days. But not every such threat is fair or soundly based. And some simply must be faced down.

The U.S. textile and apparel markets are and will remain wide open to competition under the terms of this bill. That competition will benefit American consumers, and it will have a strong American component. For the long run, it will be a better market, more competitive and vibrant than will exist if the erosion of domestic production continues during the next ten years as it has during the past ten.

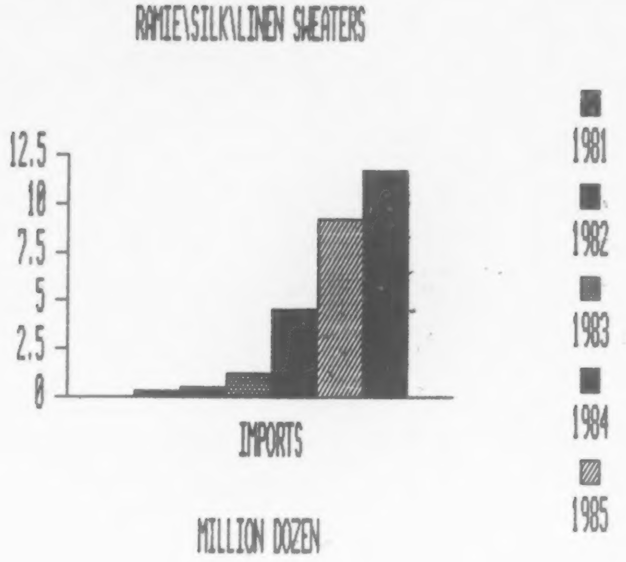
In summary, the NKSA strongly supports H.R. 1154, believes that enactment of this bill is essential for the long term viability of the domestic fiber, textile apparel complex. We believe that the present system of international negotiations, if deemed essential for foreign or defense policy reasons, could be maintained within the overall framework provided for by this legislation.

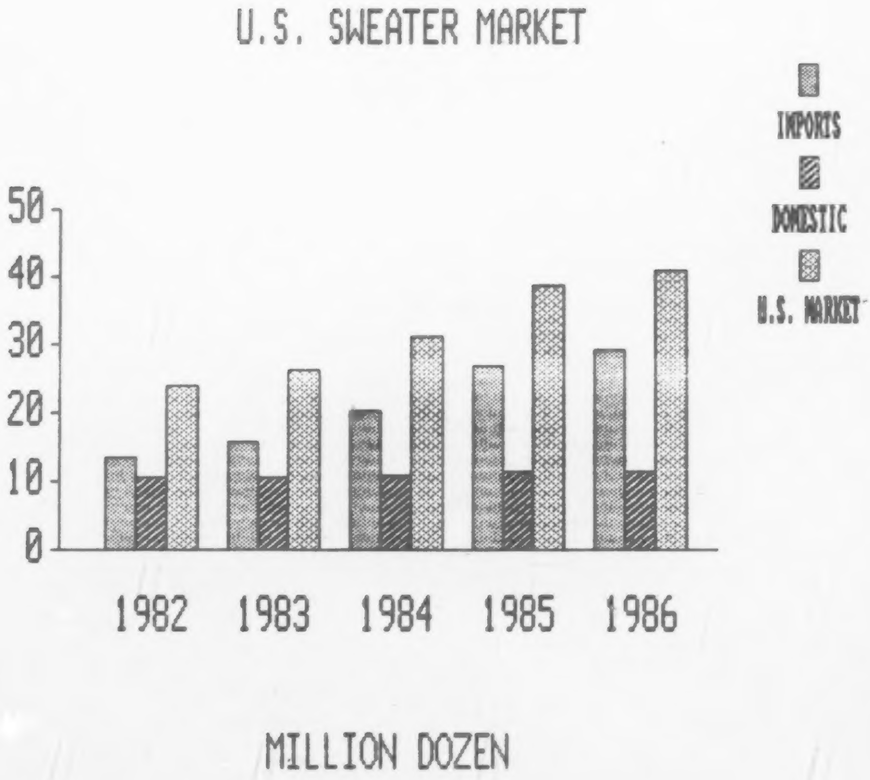
We thank the Committee for this opportunity to submit comments for the public record and the Committee's consideration.

EXECUTIVE DIRECTOR

NKSA
386 PK Ave So.
NYC 10016
212-683-7520

Home Address
39 Ashland Rd
Summit, N.J. 07901


RAMIE\SILK\LINEN SWEATERS
12.5
10
7.5
5
2.5
0
IMPORTS
MILLION DOZEN
1981
1982
1983
1984
1985


U.S. SWEATER MARKET
50
40
30
20
10
0
1982
1983
1984
1985
1986
MILLION DOZEN
IMPORTS
DOMESTIC
U.S. MARKET

SELECTED FAST GROWTH IMPORTING COUNTRIES

(000 DOZEN)

COUNTRY	1984	1985	1986	% CHANGE 86VS85	% CHANGE 86VS84
SWEATERS (ORIGINAL MFA)					
IMPORTS	15,689	17,561	17,853	2%	14%
INDONESIA	179	546	666	22%	272%
PORTUGAL	57	103	187	82%	228%
YUGOSLAVIA	5	55	161	193%	3120%
BANGLADESH	25	98	150	53%	500%
PANAMA	104	15	136	807%	31%
JAMAICA	17	45	107	138%	529%
MALDIVE ISLANDS	0	14	40	186%	N.A.
COUNTRIES ABOVE	387	876	1,447	65%	274%
PERCENT OF TOTAL	2%	5%	8%	62%	274%
SWEATERS (FIBERS OTHER THAN COTTON\WOOL\MMF)					
IMPORTS	4,495	9,237	11,689	27%	160%
KOREA	1,406	3,132	4,563	46%	225%
HONG KONG	2,367	4,228	3,777	-11%	60%
CHINA	256	797	2,077	161%	711%
TAIWAN	374	832	944	13%	152%
MACAO	60	152	161	6%	168%
THAILAND	2	13	59	354%	2850%
PHILLIPINES	5	12	29	142%	480%
COUNTRIES ABOVE	4,470	9,166	11,610	27%	160%
PERCENT OF TOTAL	99%	99%	99%		
SHIRTS\BLOUSES (COTTON\WOOL\MMF)					
IMPORTS	47,637	43,985	57,807	31%	21%
SRI LANKA	893	727	1,334	83%	49%
TURKEY	299	506	976	93%	226%
PORTUGAL	180	412	628	52%	249%
BANGLADESH	31	131	456	248%	1371%
GREECE	78	212	356	68%	356%
JAMAICA	11	114	313	175%	2745%
PERU	96	77	287	273%	199%
MAURITIUS	1	11	176	1500%	17500%
EGYPT	1	5	158	3060%	15700%
COLOMBIA	32	29	112	286%	250%
YUGOSLAVIA	10	11	73	564%	630%
COUNTRIES ABOVE	1,632	2,235	4,869	118%	198%
PERCENT OF TOTAL	3%	5%	8%	66%	146%

NMRI National Mass Retailing Institute
Richard I. Hersh
President
Headquarters: 570 Seventh Avenue, New York, N.Y. 10018 (212) 354-6600
Government Relations Office: 1901 Pennsylvania Avenue, N.W., Washington, D.C. 20006 (202) 861-0774

May 18, 1987

Honorable Sam M. Gibbons
Chairman
Subcommittee on Trade
Room 1136
Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Gibbons:

I am writing on behalf of the National Mass Retailing Institute (NMRI) -- a trade association that represents over 100 major discount retail chains located in all 50 states which account for a majority of the $120 billion dollar discount retail industry -- to express our opposition to H.R. 1154, the Textile and Apparel Trade Act of 1987. NMRI is a member of Retail Industry Trade Action Committee (RITAC), which testified recently in opposition to H.R. 1154. We believe H.R. 1154 would be detrimental to the U.S. economy, do particular harm to the retail industry and consumers, provide unnecessary help to an already prosperous U.S. textile and apparel industry, and chart the wrong course for U.S. trade policy.

The protectionist approach in H.R. 1154 would provoke retaliatory actions which would seriously disrupt the world trading systems and could trigger a world trade war. H.R. 1154 would be extremely harmful to the retail industry since it would restrict our ability to bring customers variety, quality and competitive prices, and it would add more than $10 billion a year to consumers' clothing costs. Furthermore, this bill would force 52,000 retailers out of work in order to save 47,000 textile and apparel worker jobs, and cost consumers $223,000 per job protected.

It is difficult to rationalize placing additional restrictions on imported clothing when the domestic textile industry (already the most import-protected industry in America) is enjoying prosperous economic growth. Industry earnings reported for the third quarter of last year show that return on equity has more than doubled over the previous year. The industry's overall rate of capacity utilization reached a 20-year high last year, over 95% for the fourth quarter of 1986. The most recent data available this year show that Standard and Poor's rates the textile industry as Wall Street's best performing stock industry group. The evidence is clear; this industry simply does not need additional protection.

Mr. Chairman, we count on your leadership on textile and trade issues to ensure that onerous and protectionist bills are not enacted. Your leadership and support on this issue is greatly appreciated.

Sincerely,

Robt J. Verdisco

Robert J. Verdisco
Vice President for
Government Relations

STATEMENT OF

NECKWEAR ASSOCIATION OF AMERICA, INC.

to the
Subcommittee on Trade
Committee on Ways & Means
United States House of Representatives

On H.R. 1154

May 14, 1987

The Neckwear Association of America is the trade association for domestic manufacturers of neckwear. Our businesses are concentrated in New York, which accounts for more than one-third of industry employment, and in Louisiana, New Jersey, Missouri, Pennsylvania, Texas, Michigan, Massachusetts, North Carolina and California.

The Neckwear Association strongly supports H.R. 1154 with one important caveat: The bill needs to be amended to include coverage of 100 percent silk neckties. There is a major omission in H.R. 1154 in that it fails to cover 100 percent silk neckties. Silk neckties were considered a textile product for quota purposes under the Textile and Apparel Trade Enforcement Act of 1986, and we understand that the omission of these items from H.R. 1154 was an oversight which its sponsors hope to see corrected at the appropriate time in the legislative process. We urge the Committee to make this adjustment before the legislation is reported. In this regard, we are recommending legislative language to deal with this oversight, which is attached to this statement.

One change in the bill which we particularly endorse is the ability to control imports from Italy. Last year's bill excluded the Economic Community from quota coverage. Since so many of U.S. necktie imports are of Italian origin, the earlier version of this legislation would not have adequately dealt with our import problem.

The neckwear industry believes that passage of this legislation is vital as we have virtually no protection under the current system of textile restraints, the Multifiber Arrangement. Although the neckwear industry is an integral member of the textile/apparel sector and shares many of its characteristics, neckwear is distinguished from most of the textile and apparel sector by its lack of protection from imports. While the textile/apparel industry as a whole has some protection, as imperfect as it may be, under the Multifiber Arrangement, the neckwear industry has very little protection from imports. Only some of our products are of cotton, wool, or man-made fiber, the products covered by the MFA. More than half of the neckties imported are of materials not covered by the MFA, such as silk. It is only when other constituent fibers of a necktie (e.g., the lining) outweigh the silk content that "silk" neckties can be covered under the MFA. Much of the remaining imports of wool or man-made fiber are from countries with which the United States does not have bilateral agreements, generally developed countries such as Italy, although imports from underdeveloped countries have been growing at an alarming rate. Further, while the average tariff rate last year on clothing imports was in excess of 21 percent, the average duty on necktie imports was just 8 percent.

This has left the necktie industry particularly vulnerable to imports. Producing neckties requires much the same skills and material requirements as does the production of other sewn products. Production start-up costs are minimal. Any country with an established apparel industry can quickly become a producer and exporter of neckties.

Conditions in our industry are rapidly deteriorating as imports increase at an alarming rate. In 1980, imports had about 4 percent of our market. By 1985, imported neckties had captured almost 21 percent of our market. The tremendous growth in imports has caused a substantial loss in market share held by U.S. producers.

Necktie imports from Italy present a particular problem. Italy is by far the largest supplier of neckties to the U.S. market (accounting for 53 percent of total necktie imports in 1986); imports from Italy grew from 204,000 dozen in 1981 to 876,000 dozen in 1986. Imports from Italy accounted for a major portion of the growth in necktie imports between 1983 and 1986, and imports from Italy rose by 55 percent during this period. More than half of the necktie imports from Italy consisted of silk neckties.

Imports are taking over our markets causing dislocations within the industry for both firms and workers. Our experience with the MFA has not given us much confidence of its ability to control imports, particularly given our problem with imports from Italy, which is not subject to the MFA.

Thus we urge the Committee to favorably report H.R. 1154 with an amendment to include 100 percent silk neckties under the provisions of the bill.

Attachment

Silk Neckwear Amendment to H.R. 1154

Section 8(3) is amended by adding the following:

"(D) a category consisting of the products not covered by a category described in subparagraph A and classified under TSUSA items 373.0530, 373.2030, and 373.2230."

CONGRESSMAN BILL NICHOLS

TESTIMONY BEFORE THE WAYS AND MEANS COMMITTEE

SUBCOMMITTEE ON TRADE

THE TEXTILE AND APPAREL TRADE ACT

CHAIRMAN GIBBONS, AS MY FIRST ORDER OF BUSINESS, LET ME THANK YOU AND CONGRESSMAN DON PEASE FOR YOUR VISIT TO MY CONGRESSIONAL DISTICT DURING THE 99TH CONGRESS WHEN YOUR SUBCOMMITTEE WAS CONSIDERING THE TEXTILE LEGISLATION THAT HAD BEEN INTRODUCED BY OUR COLLEAGUE, ED JENKINS. WE APPRECIATED YOUR OPENNESS, AND WILLINGNESS TO VISIT WITH TEXTILE AND APPAREL WORKERS THROUGHOUT THE NATION AND BETTER UNDERSTAND THEIR PROBLEMS FIRST-HAND.

MR. CHAIRMAN, THIS YEAR WE HAVE INTRODUCED ANOTHER PIECE OF TEXTILE AND APPAREL LEGISLATION, WHICH I CONSIDER TO BE A VERY MODEST PROPOSAL. IT HAS BEEN DRAFTED WITH A CONSIDERABLE AMOUNT OF THOUGHT AND I BELIEVE IT RESOLVES MANY OF THE PROBLEMS THAT WERE RAISED AGAINST PREVIOUS LEGISLATION OF THIS KIND.

IT IS AN EFFORT ON OUR PART TO PUT FORTH LEGISLATION THAT SATISFIES THOSE IN CONGRESS WHO SUPPORT A POLICY OF OPENESS, WHILE AT THE SAME TIME OFFERING THE TEXTILE AND APPAREL COMMUNITIES THE BARE MINIMUM THAT IS NEEDED TO KEEP THEIR INDUSTRIES A VIABLE AND PRODUCTIVE WORKPLACE.

DURING THE PAST SEVERAL YEARS, THE TEXTILE AND APPAREL INDUSTRY HAS HEAVILY INVESTED IN MODERNIZATION TO COUNTERACT THE TREMENDOUS ADVANTAGE IN CHEAP LABOR COSTS THAT IS ENJOYED BY OUR FOREIGN COMPETITORS.

WE HAVE KEPT OUR WAGES AT A MINIMUM, SO THAT THE COSTS OF PRODUCTION WILL BE AS LOW AS POSSIBLE. IN FACT, MR. CHAIRMAN, THE AVERAGE MAN AND WOMAN WHO WORKS ON THE LINE IN A TEXTILE OR APPAREL FACTORY STILL ONLY RECEIVES ABOUT $6.00 PER HOUR. MY TEXTILE AND APPAREL WORKERS IN ALABAMA DON'T ASK FOR MUCH, JUST A DEPENDABLE JOB SO THEY CAN ADEQUATELY PROVIDE FOR THEIR FAMILIES.

THIS LEGISLATION IS ESSENTIAL IF THE UNITED STATES IS TO REMAIN COMMITTED TO KEEPING A TEXTILE AND APPAREL INDUSTRY THAT PROVIDES SOME 700,000 JOBS THROUGHOUT AMERICA. IN THIS BILL, WE HAVE NOT CLOSED AMERICANS MARKETS TO FOREIGN MADE PRODUCTS, BUT SIMPLY CREATED AN ORDERLY LEVEL OF GROWTH FOR THE NUMBER OF IMPORTS IN THE FUTURE. WE HAVE NOT ROLLED BACK THOSE IMPORT FIGURES TO 1981 LEVELS, BUT USED 1986 TRADE FIGURES FROM WHICH TO WORK. AND I BELIEVE THAT OUR BILL IS A FAIR PROPOSAL FOR OUR FOREIGN COMPETITORS AS WELL AS THOSE AMERICAN WORKERS WHO DEPEND ON THESE INDUSTRIES FOR THEIR LIVLIHOOD.

ON A RECENT VISIT TO ONE OF MY LARGEST TEXTILE AND APPAREL PRODUCERS, RUSSELL CORPORATION, E. C. GWALTNEY, THE CHIEF EXECUTIVE OFFICER, SAID, "OUR GOVERNMENT'S INABILITY TO ENFORCE A FAIR, EFFECTIVE AND RATIONAL TRADE POLICY HAS GIVEN FOREIGN MANUFACTURERS A TREMENDOUS COMPETITIVE ADVANTAGE, RESULTING IN A $170 BILLION DOLLAR TRADE DEFICIT LAST YEAR. THIS DISASTROUS TREND MUST BE CORRECTED. KEEP IN MIND THAT NO ONE IS REQUESTING THAT WE SHUT OFF IMPORTS TOTALLY. WE NEED A POLICY DESIGNED TO ACCEPT A HEALTHY AND COMPETITIVE AMOUNT OF IMPORTS, BUT AT THE SAME TIME KEEP FOREIGN GOODS PRODUCED WITH SUBSIDIES AND AT SLAVE WAGES FROM FLOODING OUR MARKETS AND DISPLACING OUR WORKERS."

MR. CHAIRMAN, AS YOU CONSIDER THIS LEGISLATION, I PLEAD OF YOU TO CONSIDER THE FUTURE OF THE TEXTILE AND APPAREL INDUSTRY IN THE UNITED STATES IF THIS LEGISLATION IS NOT PASSED. AGAIN, WE HAVE NOT ASKED FOR MUCH, JUST A HELPING HAND THAT IS, AFTER ALL, THE RESPONSIBLITY OF OUR GOVERNMENT. WITH YOUR SUPPORT, AND THE SUPPORT OF THIS FINE SUBCOMMITTEE, WE LOOK FORWARD TO THIS LEGISLATION BECOMING LAW.

FOR THE RECORD

Commonwealth of the Northern Mariana Islands
Office of the Governor
Saipan, Mariana Islands 96950

Phone: 6407/6408/6581
Telex: 783-622 Gov. NMI

May 6, 1987

Honorable Sam M. Gibbons
Chairman
Subcommittee on Trade
House Committee on Ways & Means
1111 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

I am submitting for the record the position of the Commonwealth of the Northern Mariana Islands on H.R. 1154, "Textile and Apparel Trade Act of 1987".

The bill as it is written will have an adverse effect on the insular areas of the United States particularly on the Northern Mariana Islands, America's newest commonwealth. It seeks to protect the United States textile and clothing manufacturers by raising a protectionist wall in the form of a global quota on imports. Under the bill, the Northern Marianas will be treated as a foreign country.

I am proposing a simple amendment for the consideration of your Committee which would remove the territories from the definition of "country" in Section 8. The effect of this amendment would be to include the United States insular areas under the protection of the bill. For the purposes of quota restraint, the territories would be considered domestic.

Mr. Chairman, unless this bill is amended as suggested, all investments and benefits to our commonwealth and our people on this new industry will be lost and our ability to improve our economic well-being so that we do not have to rely on U.S. financial handouts will be adversely delayed.

Page 2

We sincerely request your in-depth review of the impact of this bill as drafted on America's newest American citizens, the people of the U.S. Commonwealth of the Northern Mariana Islands.

Sincerely yours,

P A Tenorio
Pedro A. Tenorio
Lt. Governor

Enclosure

STATEMENT OF

LT. GOVERNOR PEDRO A. TENORIO
COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

BEFORE THE

SUBCOMMITTEE ON TRADE
HOUSE COMMITTEE ON WAYS AND MEANS
UNITED STATES CONGRESS

MAY 7, 1987

****

THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS IS OFTEN FORGOTTEN AS A PART OF THE UNITED STATES. PERHAPS IT IS BECAUSE WE ARE SMALL WITH A POPULATION OF ONLY 20,000 AND OUR SEAT OF GOVERNMENT IS LOCATED ON AN ISLAND THAT IS ONLY 12 MILES LONG AND FIVE MILES WIDE. PERHAPS IT IS BECAUSE WE ARE SO FAR AWAY - THE MOST DISTANT AMERICAN SOIL - 10,000 MILES FROM OUR NATION'S CAPITAL. PERHAPS IT IS BECAUSE WE ARE SO NEW - THE YOUNGEST MEMBER OF THE AMERICAN FAMILY - HAVING ONLY BECOME FULL-FLEDGED COMMONWEALTH IN LATE 1986, OR PERHAPS WE DO NOT VOTE IN THE NATIONAL ELECTION.

WHATEVER THE REASON, WE ARE A PART OF THE UNITED STATES OF AMERICA. THE FLAG OF THIS COUNTRY FLIES AT OUR SEAT OF GOVERNMENT. OUR PEOPLE ARE AMERICAN CITIZENS. OUR PEOPLE HAVE FOUGHT FOR MANY YEARS IN THE ARMED SERVICES OF THE UNITED STATES. AND, THE SUPREME LAW OF OUR GOVERNMENT IS THE UNITED STATES CONSTITUTION.

YET, WE ARE NOW INSULTED BY A BILL IN THE UNITED STATES CONGRESS WHICH TREATS US AS A FOREIGN COUNTRY. H.R. 1154, THE "TEXTILE AND APPAREL TRADE ACT OF 1987" SEEKS TO PROTECT THE "UNITED STATES TEXTILE AND CLOTHING MANUFACTURERS" BY RAISING A PROTECTIONIST WALL IN THE FORM OF A GLOBAL QUOTA ON IMPORTS. OUR U.S. COMMONWEALTH IS EXCLUDED FROM THIS PROTECTION AND LEFT OUT IN THE COLD. SECTION 8(6) DEFINES "COUNTRY" TO INCLUDE "...AN INSULAR POSSESSION OF THE UNITED STATES, OR ANY OTHER TERRITORY..." WE ARE NOT ONLY EXCLUDED FROM PROTECTION, BUT OUR PRODUCTS WILL ALSO FALL INTO THIS GLOBAL IMPORT QUOTA. FOR THE FIRST TIME IN OUR HISTORY, A QUOTA WILL BE IMPOSED ON THE NORTHERN MARIANA ISLANDS BY OUR OWN COUNTRY!

AS A PRACTICAL MATTER, THE EFFECT OF THE BILL WILL BE DEVASTATING TO OUR YOUNG GOVERNMENT. UNLIKE THE LARGE FOREIGN COUNTRIES WHICH

ARE THE FOCUS OF THIS BILL, OUR GARMENT INDUSTRY, WHICH WE ARE COUNTING ON TO ACHIEVE ECONOMIC SELF-SUFFICIENCY, IS STILL UNDEVELOPED AND IN ITS INFANCY. THIS BILL WILL PREVENT IT FROM EVER MATURING, AND THUS WILL CLOSE THE DOOR FOR OUR GOVERNMENT FOR A MEANINGFUL AVENUE TO RAISE OUR OWN REVENUE TO FINANCE OUR GOVERNMENT WITHOUT ALOT OF HANDOUTS FROM THE FEDERAL GOVERNMENT. OUR EFFORTS TO BE MORE RESPONSIBLE AND TO ASSUME A GREATER PART OUR OWN GOVERNMENT FUNDING WILL BE QUASHED. EVEN WORSE, THE BILL WILL FORCE THE CLOSURE OF SEVERAL OF OUR FACTORIES. WHILE THE BILL DOES NOT SPECIFY HOW THE QUOTA WILL BE ALLOCATED AMONG EACH COUNTRY, IT IS NOT UNREASONABLE TO ASSUME THAT WE WILL RECEIVE 101% ON 1986 PRODUCTION. OUR OLDEST FACTORIES, WHICH HAVE EXISTED FOR ABOUT THREE YEARS, HAVE REINVESTED THEIR EARNINGS IN EXPANSION, BUT WILL NOT BE ABLE TO UTILIZE THEIR NEW FACILITIES. OUR NEWER FACTORIES. WHICH OPENED IN 1986, HAVE ONLY PART OF THEIR PRODUCTION REFLECTED IN THE 1986 STATISTICS. AND, THE FACTORIES WHICH HAVE OPENED IN 1987 WILL NOT BE ABLE TO OPERATE AT ALL.

IN THE PAST, THE UNITED STATES HAS CONSISTENTLY HAD A POLICY OF ENCOURAGING THE ECONOMIC DEVELOPMENT OF ITS TERRITORIES. WE IN THE COMMONWEALTH TOOK THIS POLICY SERIOUSLY. THIS IS NOT AN EASY TASK FOR THE TERRITORIES WHICH GENERALLY HAVE FEW NATURAL RESOURCES, A SMALL UNSKILLED WORK FORCE, AN UNDEVELOPED INFRASTRUCTURE, AND ARE DISTANT FROM ESTABLISHED OCEAN SHIPPING ROUTES. NEVERTHELESS, WE THROUGH THE ACTIVE ENCOURAGEMENT OF THE U.S. GOVERNMENT, IN THE NORTHERN MARIANA ISLANDS HAVE SUCCEEDED IN ESTABLISHING A VIABLE GARMENT INDUSTRY. OVER 300 LOCAL RESIDENTS ARE EMPLOYED BY THE INDUSTRY. THIS NUMBER IS SIGNIFICANT IN VIEW OF OUR SMALL POPULATION AND A TOTAL RESIDENT UNEMPLOYMENT FIGURE OF ABOUT 450 PERSONS. WE USE ONLY SKILLED ALIEN WORKERS IN OUR FACTORIES TO START THE FACTORIES, BUT THROUGH MANDATORY TRAINING OF OUR PEOPLE WE HAVE WITNESSED A STEADY INCREASE IN LOCAL EMPLOYMENT. IN THE LAST 2 YEARS THE INDUSTRY HAS SPENT OVER 18 MILLION DOLLARS IN OUR ECONOMY ON CONSTRUCTION, FOOD, SHIPPING AND OTHER LOCAL SERVICES. WE RECEIVE BETWEEN 1/3 TO 1/2 MILLION DOLLARS IN TAXES ANNUALLY FROM THE INDUSTRY. SHIPPING AND AIRLINE BUSINESS ARE FLOURISHING, AND THE COST OF SHIPPING TO OUR ISLANDS HAS DECREASED AS CONTAINERS ARE NOW NO LONGER BEING RETURNED TO THE MAINLAND EMPTY. IN FACT, THE FIRST

AMERICAN FLAG SHIPPING LINE IN OUR REGION WAS FOUNDED ABOUT 1 1/2 YEARS AGO BASED UPON GARMENT SHIPPING. AS GARMENT MANUFACTURING IS OUR SECOND LARGEST VIABLE INDUSTRY, WE DEPEND GREATLY UPON THE ECONOMIC DEVELOPMENT IT CONTRIBUTES TO OUR ISLANDS. OUR ECONOMY WOULD BE ADVERSELY AND SUBSTANTIALLY AFFECTED BY THE PROPOSED LEGISLATION.

WE WOULD ALSO BE HURT IN ANOTHER WAY. IN ENCOURAGING INVESTMENT IN OUR ISLANDS WE ARE IN COMPETITION WITH OUR NEIGHBORS - THE PHILIPPINES, INDONESIA, ETC. WHO ALL PRESENT ECONOMIC ADVANTAGES. WHAT WE SELL IS THE STABILITY OF INVESTING IN AN AMERICAN TERRITORY WITH THE PROTECTION OF THE U.S. CONSTITUTION. IF OUR FACTORIES ARE CLOSED AS A RESULT OF H.R. 1154, WE WILL BE LEFT WITH A BLACK EYE FOR YEARS TO COME IN WHATEVER ENTERPRISES WE SEEK TO ATTRACT TO OUR ISLANDS.

AS ONE EXAMPLE OF THE INEQUITIES OF THIS BILL, IT PROVIDES IN SECTION 5 FOR A TARIFF COMPENSATION - A REDUCTION IN TARIFF FOR A REDUCTION OF TRADE PROVIDED FOR ANY AGREEMENT. WE HAVE ONLY ONE AGREEMENT - FOR SWEATERS - SO MOST OF OUR MANUFACTURING IS UNPROTECTED. IN ADDITION, EVEN IN SWEATERS, WE WILL RECEIVE NO BENEFIT AS WE PAY NO DUTIES UNDER HEADNOTE 3(A) TSUS. SO, THE INJURIES YOU CAUSE THE TERRITORIES WILL GO UNCOMPENSATED.

WE WOULD LIKE TO PROPOSE AN AMENDMENT TO REMOVE TERRITORIES FROM THE DEFINITION OF "COUNTRY" IN SECTION 8. AS IT STANDS WE ARE BEING LABELLED FOREIGN COUNTRIES, WHICH IS WRONG. INSTEAD, ONE SENTENCE SHOULD BE ADDED FOR THE TERRITORIES:

> "FOR THE PURPOSE OF THIS ACT ONLY, AN INSULAR POSSESSION OF THE UNITED STATES SHALL BE TREATED AS IF IT WERE LOCATED INSIDE THE CUSTOMS TERRITORIES OF THE UNITED STATES."

THE EFFECT OF THIS AMENDMENT WOULD BE TO PROVIDE THE PROTECTIONS OF THIS BILL TO THE TERRITORIES. FOR THE PURPOSES OF QUOTA RESTRAINT, THE TERRITORY WOULD BE DOMESTIC. SO, GOODS SHIPPED INTO THE TERRITORY WILL BE SUBJECT TO THE QUOTA. FOR EXAMPLE, A BULK OF

FABRIC FROM KOREA ENTERING INTO THE NORTHERN MARIANA ISLANDS FOR MANUFACTURE INTO PANTS AND LATER SHIPPED TO NEW YORK WILL BE COUNTED AGAINST KOREA'S QUOTA FOR THAT FABRIC. THIS IS JUST AS IT WOULD BE TREATED IF IT WERE SENT FROM KOREA TO SAN FRANCISCO FOR MANUFACTURING. ON ONE HAND, THIS SEALS ANY LOOPHOLES THAT THIS LEGISLATION MIGHT LEAVE IF THE TERRITORIES WERE SIMPLY EXCLUDED. ANY TEXTILE OR GARMENT ORIGINATING IN A FOREIGN COUNTRY WILL BE COUNTED AGAINST THAT COUNTRY'S QUOTA - THEREBY MAINTAINING A CEILING ON IMPORTS INTO THE UNITED STATES. FOR THE TERRITORIES, IT ALLOWS US TO CONTINUE OUR ECONOMIC DEVELOPMENT AND TO KEEP EXISTING FACTORIES OPEN, THOUGH IT WILL INCREASE THE COST OF MATERIAL.

WE REQUEST YOUR CONSIDERATION OF THIS SIMPLE AMENDMENT. THANK YOU FOR THE OPPORTUNITY TO ADDRESS THIS LEGISLATION.

CARL K. DAVIS
East Coast Counsel

The Honorable Sam Gibbons, Chairman
House Ways & Means, Trade Subcommittee
1136 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Pursuant to discussions with the Trade Subcommittee staff, I enclose a packet of information to be included in the hearing record on HR 1154.

Nike, Inc. is a U.S. company based in Beaverton, Oregon. Nike manufactures and distributes on a wholesale and retail basis athletic footwear and sports related apparel. The company employs approximately 3,000 persons and has annual sales revenues approaching $1 billion. Approximately 20% of our sales revenues are derived from the company's apparel division. The apparel line is produced by a combination of both domestic and foreign apparel manufacturers.

At the time Nike established operations in the apparel business, we purchased 100% of our apparel products from U.S. manufacturers. Today, we still purchase 60% of our apparel products from U.S. companies.

We have found, however, many domestic apparel manufacturers to be extremely uncooperative and unwilling to adapt their operations to meet our design, volume and timing requirements. In short, these firms simply have refused to change from their age-old manufacturing practices to respond to our needs. Consequently, we have been forced to purchase an increasing volume of our apparel from overseas suppliers.

In 1985, in preparation for my testimony on apparel quota legislation before the Senate Finance Committee, I asked our apparel production manager, Dave Taylor, to prepare a report setting forth the recurring problems Nike faced in attempting to deal with the domestic apparel industry. Those problems are outlined in his attached report. The report sets forth a litany of problems, including refusal to manufacture goods to our specifications, unrealistic minimum volumes, and repeated failures to meet delivery deadlines. Also included were a series of letters between Nike, Inc. and various domestic manufacturers illustrating the continuing frustrations we encountered in attempting to do business with the domestic industry. I have included one such letter as an example.

NIKE, Inc. • 507 Second Street, N.E. • Washington, D.C. 20002
(202) 543-8500 • Evenings: (202) 546-1516

Earlier this year, I asked our current production manager, Matt Wolff, to review and update the earlier report. Contrary to claims being made by the domestic apparel industry, we discovered the problems present two years ago have not improved. In fact, they have become worse!

The updated report prepared by Mr. Wolff dramatizes the continuing frustration we have encountered in dealing with many domestic apparel companies. Attached is a copy of Mr. Wolff's report, including a sample of one of the many letters we continue to be forced to send to domestic companies.

As I pointed out in my testimony two years ago, Nike, Inc. would like to expand its purchases of apparel in the United States, but unfortunately cannot risk doing so. Due to its inflexibility and failure to meet production scheduling demands, the domestic apparel industry has created many of its own problems. American apparel companies such as Nike have chosen to pay ocean shipping charges, encounter delays in clearing U.S. Customs, pay high duties and deal with manufacturing sources which can only be reached by long distance communications rather than deal with inflexible domestic apparel manufacturers. Price is not the only consideration that has forced apparel companies to seek foreign sources of production.

Passage of HR 1154 will not correct the problems we face. In fact, they will only be magnified if new trade barriers in the form of still more restrictive quotas are established.

If you or any of your staff have questions concerning these reports or the problems outlined therein, please feel free to contact me. Thank you for your consideration in this matter.

Very truly yours,

Carl Davis

Carl K. Davis

Enclosures

MEMORANDUM

TO: Carl K. Davis, East Coast Counsel
FROM: Dave Taylor, Apparel Production Manager
DATE: September 5, 1985
RE: DOMESTIC APPAREL PRODUCTION PROBLEMS

1. Fabrication: Minimum dye-lots are much more reasonable in the fabrics off-shore vs. domestic. For example, here are some comparisons and what each dye-lot yields for woven fabrics such as twill and poplin:

DOMESTIC
6500 yards/color (minimum dye lot)
Pant (1.5 yds/pc) = 4,300 pieces
Detailed short (.8 yds/pc) = 8,100 pcs
Basic short (.5 yds/pc) = 13,000 pcs

OFF-SHORE
1000 yds/color (minimum dye lot)
Pant (1.5 yds/pc) = 670 pcs
Detailed short (.8 yds/pc) = 1250 pcs
Basic short (.5 yds/pc) = 2000 pcs

We're in the fashion business, i.e. colors and styles change constantly. We can get stuck with a lot of fabric domestically if we drop out of a color and haven't utilized a full dye-lot (and believe me, it has happened often; we have an excess fabric inventory of over $1,000,000 due partly to the above).

In a typical fashion pant, we try not to order more than 50-75 dozen/color at a time in order to stay just ahead of the demand for the product, so unless the product/color carry for a while, we end up with fabric. A style such as this will usually have six colors so domestically we have to commit to approximately 39,000 yards of fabric right out of the blocks compared to 6,000 yards off-shore.

Another example is yarn dyed knit fabrics for placket shirts (striped tennis shirts, leisure shirts). Yarn must be dyed before being knit into the desired colors/designs. Domestically, we must commit to a minimum of 1400 yds per colorway of a design compared to 600 yds off-shore. At one yard/shirt we must purchase shirts or commit to fabric for 1500 shirts/colorway domestically; off-shore only 600 shirts/colorway.

Again in this case, tennis business is not staggering in volume and we try to stay just in front of the demand. In the weaker colorways, a purchase of even 600 shirts can be considered large, so you can imagine what 1500 shirts/colorway means.

In actual content of fabrics, fleece is an example where we have had problems domestically. The bulk of our fleece business utilizes grey heather fleece. Domestically, the major fleece manufacturers run blends of poly/cotton and acrylic/cotton. To get the true grey heather effect and to improve the fabrics characteristics (lower shrinkage, more durability), we run a poly/rayon/cotton fleece.

We approached domestic mills about doing this blend for several seasons. They were unwilling to accommodate us, as to make this blend would entail some development and retooling. They would rather walk away from the business than go to any effort to gear up a new product.

Because of this, we started moving our fleece off-shore (Fall 83) in order to get what we wanted and by Fall 85 we made about 80% of our fleece off-shore.

In addition domestic fleece mills require huge production runs to make a style. Normally, for one style, we have to purchase a minimum of 600 dozen/style and 200 dozen/color in one production run (if we have 5 colors, we have to order 1000 dozen in one shot). If we did run continuous styles and colors, we could probably deal with these quantities, but since we are in a rapidly changing sector of the business, there is no way we can deal with quantities of this nature.

In a nutshell, off-shore manufacturers are more flexible in terms of fabrications and quantities than domestic manufacturers, and in the constantly changing part of the business we deal with, we must go off-shore to get this flexibility.

2. Styling: Warmups are a major part of our business and there aren't a whole lot of contractors domestically who can make warmups.

The big fleece manufacturers do not make them because they are not geared to labor intensive items such as this. XXXXXXXXXX has priced fleece warmups for us, but not in their USA plants; they prefer to do them in their Costa Rica operation.

And fabrication plays a role here as well. The majority of our warmups are in fleece and to get a suitable fabric, we have to go off-shore anyway.

It's tough to be specific on this category. We do make warmups in the US where feasible, such as when a domestic fabric is used, but we have yet to find a volume manufacturer who can fit our needs and we have yet to find the domestic fabric supply in fleece that fits our needs.

Fleece separates, again a major part of our fall business, don't fit into domestic manufacturing operations either. An example is the Malibu group which requires side seaming (for fit) and set in stripes. When presented to domestic fleece manufacturers, they would only consider the program if we allowed them to change our design and patterns so that the goods could be manufactured as tubular goods with bulkily set-on stripes. To get what we wanted, we had to go off-shore to avail of more flexible manufacturing capabilities.

Obviously, price plays into the above on how much a manufacturer will do for you in terms of fashion work. Most domestic manufacturers will tell us up front that they can't' or don't want to make certain types of items for us because they'll have to modify their production lines and don't feel they'll be competitive price wise in doing this. So tied into this is the flexibility issue. Again, we go off-shore because manufacturers are more flexible and responsible to our needs.

3. Delivery: Problems arise here no matter where you make goods, but two examples that crushed us domestically occurred on tennis shirts and basic fleece.

We used to make most of our tennis shirts at XXXXXXXXXX, domestically. We were stuck with the color minimums as illustrated in the Fabrication section; plus XXXXXXXXX depended upon a fabric mill to supply piece goods to them. For consecutive seasons, it took nearly 6 months from order date to delivery of finished goods, partly because XXXXXXXXXX was dependent on the fabric mill, which put no particular priority on our goods because our orders were much smaller than other customers; and partly because XXXXXXXXX had trouble making what we specified. They weren't flexible in their production.

In order to get the quantities we wanted in reasonable delivery times, we went off-shore. See letters to XXXXXXXXX in which we pushed them for delivery with little success.

In basic fleece, we're at the whim of the manufacturers. There are only 3-4 major fleece mills in the US and they all run their own in-house programs as well. If business is good for their own merchandise, then obviously their contract work for people like Nike gets pushed aside.

We have run major programs with XXXXXXXXXX for several seasons in basic items and have never been delivered on time. The excuses are numerous and it may have been inevitable anyway for Nike, but we have pretty much discontinued basic fleece items in our Fall 85 line because we could not deliver to our customers because XXXXXXXXX could not deliver to us. Ironically enough it appears XXXXXXXXX has no problem delivering their own brand to customers.

If we do basic fleece again in any volume, we'll have to consider going off-shore to more reliable sources; sources that will give our production some priority. See letters to XXXXXXXXX outlining delivery problems.

4. Summary: Price is undoubtedly a factor for going off-shore, and I don't think we can argue that point.

However, other factors are of more importance such as fabric minimums, factory cooperation, flexibility in production, and so on. If all factors were equal, we would do even more goods domestically. But they aren't so we need to go off-shore to get what we want. This is the primary reason nearly all fashion business has shifted off-shore. The big chain stores and mass merchants can run the volume necessary to manufacture domestically, but even without considering price, we can't. Many of our programs just don't fit into domestic production systems.

FILE

Apparel Division

January 5, 1984

all Notes

Dear

As of 12/30/83, we show that . still owes Nike some 4,950 dozen against November orders, 16,300 dozen against December orders, and 12,900 dozen against January orders. This represents some 32,000 plus that should be out of by January 15, if your deliveries are to be on time to us. It appears to me that the delivery situation at has deteriorated rather than improved over the last three months. It is extremely hard for us to understand how this can be happening with all the efforts that we are putting into this thing. Our patience is wearing very thin and shipments to our customers continue to suffer greatly because of poor shipping performance.

After all these many months and years, is there nothing that can be done to improve your deliveries? We must have some assurance - not just verbally - but in some more tangible way that intends to deliver on time to us.

What must be done? We don't know what else to do. Please respond.

Regards,

NIKE, INC.

Larry

Larry Stephens
Contract Administrator

LS/dk

cc:

MEMORANDUM

TO: Carl Davis
DATE: April 27, 1987
FROM: Matt Wolff

RE: APPAREL SOURCING UPDATE: DOMESTIC VS OFFSHORE

Pursuant to your request, I have reviewed sourcing problems that we have experienced since Dave Taylor prepared his memo in the Fall of 1985.

Many of the same reasons Taylor pointed out still prevent us from doing all of our production domestically.

Fabrication: Although there has been a lot of hype about U.S. fabric mills becoming more "competitive" with regard to fabric minimums, for the most part this hasn't happened. In the area of woven fabrics, depending on the mill and type of fabric, most minimums run about 5-6,000 yds per dye lot color. Offshore, the dye lot minimums run between 600-1,000 yds. For our basic woven bottoms usually the domestic minimums don't present a problem because programs are large and long running, but they make it impossible to do a fashion oriented type program where we may want to buy only 50-75/dz per color at a time. With your basic pant using 1.5 yds per pc, we would have to commit to 300/dz per color domestically, twice what we would have to commit to offshore.

Many domestic mills have been trying to address the minimum problem. [redacted] for example now offers 1,000 yds per dye lot minimums and we took advantage of that service and utilized their 100 percent cotton twill fabric in our Fall '87 program. They could not however maintain this price for more than one season, and we could not afford their increase for Spring '88, and thus are back with our old twill supplier and their 6,000 yd minimums.

My point here is that although many domestic mills, both woven and knit, are trying to address this minimum dye lot problem, any accommodations made that deviate from the norm usually come with a significant price increase, thus putting their product out of the price range we can accept.

In the area of knits, our biggest fabrication is still fleece which we purchase primarily from offshore. We have had some success bringing a small portion of this business back to the states with the [redacted] program, but the majority of fleece still must come from offshore. Although we are investigating domestic possibilities, we have yet to find a U.S. mill that can produce basic fleece to our styling and fabrication specifications.

Both domestically and offshore lead time for all but the most basic fabrications are running longer than normal. Domestically however, it always seems to be worse. Lead times for yarn dyed fabrics that we utilize in basic tops, for instance, can be running as long as 17 weeks domestically. Even when business is very good, as it is now, yarn dyed fabrics will seldom go beyond an 8-10 week lead time offshore. When lead times are nearly twice as long domestically, we are faced with committing to fabric much sooner than we want, thus increasing the risk of excess fabric or garment inventory. In addition should a particular yarn dye program become more popular than originally forecasted, our ability to react and "chase" that business would be impaired because of the long lead times. Time and again, our Asian contractors have always proved themselves capable of taking additional orders and delivering them on time. Domestically if we deviate from original forecast, mills have a much more difficult time reacting and in most instances refuse to accommodate any changes.

Styling: Warm-ups continue to be a large part of of our business, and there are still not many domestic manufacturers that can be competitive with Asia on anything but the most basic suit. Most of the major fleece manufacturers are geared to very basic, simple type styling that they can have very long production runs on. Most would not even consider doing the type of styling where we realize the majority of our sales. In the area of basic fleece, we are trying to get something started domestically but to date have not been successful. Even though for us it's "basic" styling for most domestic fleece manufacturers our "basic" styling requirements are too complex. In instances where they have tried to produce to our specifications, the prices are not just uncompetitive they are exorbitant.

On our other programs that require more make in the garment, such as placket shirts or tennis shorts and skirts, we have yet to find a manufacturer who can compete with Asia. On numerous occasions, I have had domestic contractors send me a basic placket shirt and offer a price and product which appears to be competitive. But when I have sent a Nike garment with Nike fabric and styling specifications, their initial prices often increase by 50-75%.

Delivery: Although we have delivery problems wherever we make goods, our major and most costly delivery problems occur domestically. Attached are four letters to four separate domestic manufacturers that detail problems we've had in the last year. All were very costly to Nike, but the delivery problems of two manufacturers cited in these letters, [redacted] and [redacted], were especially crippling. The letters detail the problems so I won't elaborate any further. These letters are representative of the problems we encounter repeatedly in dealing with domestic manufacturers.

Summary: Price is the obvious reason so many apparel companies manufacture offshore. Except for the most basic styled garments, domestic manufacturers cannot compete with Asia in terms of price.

It is however, the other factors that have really driven apparel companies like Nike offshore. Factors such as fabric minimums, lead times, delivery reliability, factory cooperation, flexibility in production etc., etc. It all boils down to service. In Asia, the apparel industry is service oriented, in the U.S. the industry is inflexible. Offshore manufacturers are willing to work with buyers to develop new fabrics and programs that are flexible with regards to buying patterns and minimum requirements which is so important to us so we can stay close to the market and lessen the inventory risk. Domestically, for the most part, this type of atmosphere just doesn't exist. We have a number of domestic manufacturers who have been loyal, consistently hard working partners. Even then however, their product usually consists of our most basic items, woven shorts, t-shirts, etc. Many of our programs just don't fit into domestic production systems and historically they have refused to make any changes.

Pj

Apparel Division

March 4, 1987

Dear

As we move into March, we are still struggling with quite a few delivery problems from [redacted] on our 1987 Spring line. In fact, we are quite disappointed with [redacted] performance overall. As I've said several times in the past, we were very excited to be able to develop a program with you having been aware for quite some time of [redacted] reputation for quality, delivery, and performance in the apparel market place. For whatever reasons, the actual experience has been far below expectations.

Enclosed with this letter is a computerized printout of the history of the purchase orders we have placed with you dating back to last July. In some instances, some styles shipped within a reasonable period of time. On the other hand, the delivery of the little boys and kids program has been disastrous. This was pretty much a one shot program issued in September with a requested delivery date of December 1st. You generally confirmed a mid January to late January ship date, and after some meetings, you agreed to have the goods shipped by 1-15 to 1-23, 87. As of the date of this letter, there are still many of these items unshipped.

There were also more quality problems than we anticipated with you folks. There was the disappointment with the quality of the printed goods as well as the weight of that fabric. Some stripe matching problems and two or three screen printing problems.

Another area of frustration has been in the area of obtaining timely and accurate information regarding the status of our orders at a given time in your operation. It seemed, for the most part, that the information was very slow in coming and not always accurate. [redacted] I even realize that you have been frustrated yourself in your efforts to get the information that we requested. I can only conclude as an outsider that there must be some problems internally there with the flow of information.

NIKE, Inc. • 8605 S.W. Creekside Place • Beaverton, Oregon 97005
(503) 626-6453 • Telex: 71/474-2113 • Fax: (503) 626-6494

[redacted]
March 4, 1987
page -2-

We are facing mounting cancellations daily from customers who expected their goods in January and February, that, we felt would be no real problem back in November. Our last shot of Spring '87 shipments are due to go out to our customers by March 25th and we're talking about orders that were originally written for March delivery. We are faced with shipping a lot of January and February orders during the month of March that we can only hope will stick.

In an effort to be reasonable with you and at the same time minimize our losses, we feel that we must ask you to complete all of our Spring orders out of your warehouse no later than March 27th, 1987. Any orders shipped after that date will only be accepted by NIKE at a reduced price. That price as covered in our Supply Agreement would be at 66% of FOB. If you feel that this an unfair deadline, we welcome a response from you that would point out anything that you feel would be specifically unreasonable.

Please feel free to call me if you have any other questions or problems you feel that you need to discuss.

Sincerely,

Larry Stephens
Domestic Production Manager

LS/dd

cc: [redacted]
Roger Neet
Matt Wolff
Dave Dickey
Steve Smith

Statement of the Honorable Elizabeth J. Patterson, Member of Congress, in support of HR 1154, the Textile and Apparel Trade Act of 1987.

Mr. Chairman, thank you for this opportunity to address the Subcommittee on an issue of extreme importance to the citizens of South Carolina.

Textiles are the very heart of our industrial base in South Carolina. For decades the mills have supplied employment to our people. In times of war, we manufactured uniforms and parachutes. In times of peace, we have consistantly turned out fabric of the very highest quality. But now we are facing an enemy that is slowly eroding our ability to compete.

Since 1980, textile and apparel imports have increased 2.5 times. Since 1980, the textile and apparel trade deficit has set a new record each successive year. And 1986, the textile and apparel trade deficit was a record $21 billion. That figure represents 12.5 percent of the nation's entire merchandise trade deficit.

What does this mean in terms of jobs? According to the Department of Commerce every $1 billion in trade translates into 25,000 jobs. A $170 billion overall trade deficit translates into over 4 million jobs.

What do these figures mean to the textile industry? Since 1980, approximately 350,000 American jobs have been lost to foreign competitors; 33,400 of those lost jobs were in South Carolina. Since 1980, approximately 1000 U.S. textile and apparel plants have shut down; 88 of those plant closings were in S.C.

If orders had not been lost to imports, those plants would be operating today. And if the plants were in operation, then thousands of workers would still be on the job.

The American textile industry is the leader, worldwide, in productivity and efficiency. U.S. mills make the best products in the world, but we are competing with nations that pay their workers as little as 20 cents an hour, that subsidize their industries and target the U.S. market for an import invasion.

Many will argue that profits are up, that the industry is experiencing a boom, but when an industry has to shut down 1000 plants in a six year period, it is no surprise that the ones remaining are more profitable. The fact is the textile and apparel industry has to get more profitable to remain competitive.

In my district one textile company alone, Spartan Mills, has spent over $100 million in the past ten years to modernize eight plants. This is where the profits are going.

The industry is standing alone against a flood of imports, and existing constraints are being ignored. Listen to just one example of how foreign nations are getting around our existing quotas.

According to customs officials, few or no Soviet textile products were imported into the U.S. through the Port of Charleston, prior to September of 1986. However, from September 1986 through May 15, 1987, 4.9 million square yards of textile products from the Soviet Union passed through the port. During the week of May 17, an additional 3.8 million square yards entered the port, and another 9 million square yards is expected in the next two weeks.

There is even a possibility these are Chinese manufactured goods, and the Soviets are acting as middle-men to help the Chinese exceed their negotiated quota.

How can we tolerate this? How can we allow the products of virtual slave labor to shut out our own products? This is an example of a trading policy gone wrong. This is the kind of unfair practices we face, without any recourse for our own manufacturers.

Sadly, we are losing our industrial base and replacing it with an expanded service sector. A service sector which often has no place for the older worker. The worker who cannot adapt to working in a mall or restaurant. The worker who could once take pride in creating a product, but now is reduced to running a cash register. The simple facts are that these jobs pay less than manufacturing jobs, and the end result is a lower standard of living.

My constituents are not ready for the end of the American dream. They are not ready to give up. They will not roll over and accept America as a second class industrial power.

I ask you, how secure is a nation that no longer has a manufacturing base? In the past, one of our nation's greatest strengths lay in our ability to mobilize industry in time of crisis. The strength of the American manufacturer has been a deciding factor in every conflict we have ever fought. What happens when they are gone?

Perhaps, as a mother, I worry too much. I am very concerned about the future my children will have.

But please, think about what a lower standard of living means for our entire nation, and what dependence on the good-will of foreign manufacturers will mean.

We have to do something now to save basic American industry. We cannot afford to wait. The goal of H.R. 1154, the Textile and Apparel Trade Act of 1987, is to provide an effective remedy to the textile and apparel import crisis, and I believe that it is the best hope of saving American jobs.

Thank you, Mr. Chairman.

STATEMENT OF

REPRESENTATIVE RICHARD RAY

Mr. Chairman:

I appreciate the opportunity to present testimony before your committee regarding the current state of our domestic textile industry.

My interest and concern in this area has grown from two sources. First, in my own district, the Third District of Georgia, the textile industry has traditionally been the largest producer of goods. During the last several years, we have experienced a decline in employment and a number of textile factories and mills have closed their doors after years of operation.

Second, as a member of the House Armed Services Committee, I have been concerned about the negative effect this trend could have on the national security of our country. I learned that our country had no capability for producing chemical warfare gear - we were entirely dependent on England for production of this apparel. (An American firm has since undertaken a joint venture in this area with the British firm, thus giving us this capability.) This and other similar information which I gathered led me to the conclusion that if we allow our domestic textile base to deteriorate to the point where we cannot meet our military's needs in times of mobilization, then we are indeed directly threatening the security of this country.

It was this concern which led me to amend the FY86 Department of Defense Authorization Bill to require D.O.D. to report annually on the ability of our domestic industry to meet their textile and apparel needs in times of mobilization.

Congress received the first report last spring, and hearings were held in the Investigations Subcommittee of the House Armed Services Committee in July. The results of the first report were disturbing because it indicated a downward trend throughout the industry. Specifically, the report submitted by the Defense Logistics Agency outlined domestic shortages in at least seven areas of essential military items. Further, in the event of a national mobilization, shortages in domestic textile and apparel goods will be felt within 60 days.

A new report is expected to be received in June and it is important that its findings be reviewed carefully. The texile industry produces a wide array of products that go beyond uniforms or boots in their military application. I am speaking of such textile-related areas as fiber optics, the production of heat resistant materials which are used by NASA, the production of chemical resistant materials, and the application of synthetic fibers in modern aviation design.

I commend the members of this committee for holding these hearings regarding the U.S. textile and apparel industry. A deteriorating textile and apparel base here at home can lead in only one direction - towards a whittling away of America's technological edge in a multitude of defense related items. The result of this will severely impinge on this nation's ability to rely on superior military equipment to counter the Soviet's strength in military manpower.

Thank you.

Written testimony of the Honorable Don Ritter
before the House Ways and Means Committee
Subcommittee on Trade
May 18, 1987
In Support of H.R. 1154
The Textile and Apparel Trade Act of 1987

Mr Chairman, I come before you today to urge your strong support of the Textile and Apparel Trade Act of 1987. The emergence of a global textile and apparel industry has resulted in a 52% dominance of imports in United States textile and apparel industry. As a result, the industry has suffered a 21 billion dollar trade deficit. Growth of imports from 1980-1985 could have been held at 30% if Multifiber Arrangement Quotas were enforced and provisions of the Textile and Apparel Trade Enforcement Act of 1985 had been in effect. However, imports during this period rose 103%. The need for restraint is clear, and that leads me to make 3 points in favor of this bill.

Production in Developing Countries

First, the labor intensive and low wage nature of the textile and apparel industry has made it very attractive to developing countries. These countries have successfully used a combination of 25-75% tariffs, quantitative restrictions and even prohibition of our products to keep the United States from competing in their domestic markets.

Another factor that has contributed to the penetration of textile and apparel imports into the United States is the trade restrictions on imports by the European Economic Community and Japan resulting in the channeling of developing nations' textile exports to the United States' market. In the textile sector, the per capita value of imports from developing nation to the United States rose from $5.09 to $10.11, during the 1980-1984 period. EEC imports for the same period experienced a decline from $11.82 to $8.30. The changes in the apparel sector were much more drastic, with per capita value of imports from developing countries to the United States increasing from $25.56 to $56.63; in the EEC, it declined from $22.38 to $18.37.

U.S. Industry's Efforts to Improve Productivity

Secondly, the devastating impact of nontariff barriers has not kept the United States textile and apparel industry from making production improvements necessary to enhance its global competitiveness. The industry invests an average of $1.5 billion per year in new plants and equipment. Productivity in apparel assembly has surpassed the manufacturing average between 1975 and 1985. On the horizon, new technologies in robotic sewing have the potential to substantially increase sewing productivity. Other steps in the production process can also be streamlined through automation and improved management. There is also the potential, through "Quick Response" information technology, to unite the textile and apparel network, making the whole system more efficient.

In the Lehigh Valley of Pennsylvania, the Ben Franklin Partnership Program and Lehigh University are assisting the American apparel industry to improve productivity via the application of advanced technology. They are currently working on three different areas. First they are working on applying technology with the help of start-up companies. On-Line Data Systems, Inc. -- a start-up company housed at the Ben Franklin Business Incubator at Lehigh's Mountaintop Campus -- has been named as a participant in IBM Corporation's Industry Marketing Assistance Program.

This firm develops computer software packages for the apparel industry and will be the software supplier recommended by IBM for use with its mainframe computers.

Second, the Ben Franklin Center is developing a technology demonstration site for the apparel industry in response to Pennsylvania's large base of apparel firms. The general goal of the Ben Franklin Center is to transfer technology development to the public. The Center and the University, therefore, have led an initiative in response to a request from the Department of Defense to create a demonstration site where representatives from all aspects of the apparel manufacturing industry can observe state-of-the-art technology and manufacturing methods at work.

Finally, the center is working to improve manufacturing processes through the Ben Franklin Challenge Grant Program. Working closely with Frankel Engineering Laboratories and Albright College, the project, entitled "Computer Aided Manufacturing and Commercial Sewing/Stitching," received a $62,000 Ben Franklin grant to develop a system within their plant to computer control all the sewing machines by programming each operation of each machine so that the number of stitches is controlled by the program, thus improving efficiency and simultaneously monitoring the work flow.

Clearly these are the types of technological advances which could make us far more competitive in the world apparel market if we are given the opportunity to sell these products overseas.

The Harley-Davidson Lesson

Finally, it has been demonstrated that industries actively pursuing the kinds of improvements that will make it more competitive in the increasing global market can be successful with governmental assistance that restrains imports, creating a balanced trade environment in which United States industries can compete fairly.

Recently, Harley-Davidson asked the International Trade Commission to drop the very tariffs that saved the company from collapse. This policy, after only four short years, allowed the industry to make the changes necessary for global competition.

Mr. Chairman, this is the situation. Developing countries have penetrated our textile and apparel markets while successfully shutting the United Stated out of their's. The textile and apparel industries have exhibited the potential to compete in global markets with the aid of a fair trade environment vital to textile and apparel industries in America.

ROYAL THAI EMBASSY
2300 KALORAMA ROAD. N.W.
WASHINGTON. D.C. 20008

No. 1152 /2530

June 18, 1987

Dear Congressman,

On behalf of the Royal Thai Government I would like to refer to the continuing concern we have expressed, both individually and jointly with other ASEAN countries, over the textile bills H.R. 1154 and S 549 which seek to set restrictive global import quotas with negligible growth for textiles and no allowance for growth in shoes.

It is my understanding that further actions on these bills (e.g. mark-ups) are imminent and I therefore takes this opportunity to once again voice our continuing concern over the bill. The bill would completely abrogate the MFA and all existing bilateral agreements, the result of which would be highly disruptive to the trade in textiles, adversely affecting a key industry in Thailand and ASEAN. It is also our view that the present MFA and the network of bilateral agreements, recently made even more restrictive to accomodate U.S. concerns, nevertheless retain the principle tenets of a framework that allows an orderly expansion of developing countries' textiles trade while giving importing countries sufficient protection against market disruption. The Royal Government therefore appeals to the United States Congressmen and Senators to strongly oppose the textile legislation which would undermine the existing carefully negotiated framework of trade in textiles. Such a legislation, moreover, seems most inappropriate at a time when U.S. textiles industry which remains the most highly protected, is currently enjoying the highest levels of growth and profit.

The enactment into law of the protectionist textiles bill would also adversely affect the momentum for reform and liberalization in the Uruguary Round of Multilateral Trade Negotiations. For ASEAN and the United States which are strong supporters of the Uruguay Round and cooperating closely and effectively on important issues such as agricultural trade reform, such a set-back inevitably affecting an issue of vital mutual interest would be most regretable.

In reiterating our request for your kind support in opposing the textile bill, I have also enclosed our more detailed response to the textile bill for your further consideration.

Yours sincerely,

Abinant Na Ranong

Abinant Na Ranong
Charge d' Affaires a.i.

The Honorable
Sam Gibbons
2204 Rayburn House Office Building
Washington, D.C. 20515

THAILAND'S REACTION TO THE US TEXTILE AND APPAREL TRADE BILL OF 1987

1. The Bill is being proposed at a time when the US textile industry is receiving the highest level of import protection. The textile industry in the US is enjoying the highest growth and outperforming the rest of the economy.

2. The Bill runs contrary to the principle of GATT since it makes no indication as to how long it will take to remedy the situation.

3. The enactment of the Bill necessitates the application of Article XIX of GATT. Once the US Government resorts to Article XIX, it must treat all trading partners alike and must engage in consultations with them to find an appropriate compensation. However, the compensation offered by the Bill is inadequate and meaningless.

4. In the absence of clear direction as to how imports will be administered there is fear that the US legislators may contemplate an import licensing scheme and quota-auctioning procedures.

5. The proposed Bill, if enacted, will cast doubt on the viability of the international Multifibre Arrangement (MFA). It is inconceivable that the Bill can live side by side with the MFA. The withdrawal from the MFA by the US, a major importer of textiles, will also heighten the risk that others may follow suit thus leading to disruption of trade with the consequent heightened probability of trade wars.

6. Enactment of the Bill will completely abrogate the MFA. All Bilateral agreements negotiated with developing countries will be in jeopardy. Furthermore the Bill violates Article 6 of the MFA which calls for more favourable treatment to be accorded to developing countries in respect of textile opportunities.

7. The Bill is in violation of the MFA since it seeks to curb imports based on global quota without proof of market disruption in accordance with Annex A of the MFA.

BEST AVAILABLE COPY

8. The proposed Bill, contrary to the claim by its sponsors that it seeks no rollback of trade, would limit imports to the actual 1986 import levels instead of the negotiated access right. This certainly represents a cut-back.

9. The Bill will put ASEAN and other suppliers of similar size in a disadvantageous position vis à vis major suppliers. Different degrees of competitiveness and stages of development may mean that major exporters have a much better chance to secure yet greater market shares. In the end the global quota system would in effect rob the poor to give to the rich.

10. In the absence of clear indication of individual quota levels, the textile industry in Thailand and other ASEAN countries will be at a lost because it cannot plan ahead. Production cannot be commenced without knowing exactly how much to be produced or if there are buyers around.

11, The effect of global quota is to put bargaining power in the hands of the buyers, thus resulting in the reduction of foreign exchange earnings for the suppliers.

12. The Bill, where non-rubber tootwear is concerned, is also harmful to Thailand's exports as its shipments of such products to the US remain very small.

13. The Multi-Fiber Arrangement, an instrument governing international trade in textiles, has been extended to July 31, 1991. It is Thailand's belief that the MFA deals sufficiently with the problems arising from trade in textiles. We have been a long standing supporter of the MFA and feel confident that it would be mutually beneficial for both ASEAN and the US to abide by it.

TESTIMONY OF THE HON. J. ROY ROWLAND BEFORE THE HOUSE WAYS AND MEANS SUBCOMMITTEE ON TRADE ON H.R. 1154, THE TEXTILE AND APPAREL TRADE ACT OF 1987

JUNE 2, 1987

MR. CHAIRMAN, I WANT TO THANK YOU FOR PROVIDING THIS OPPORTUNITY FOR CONCERNED MEMBERS TO TESTIFY ON THIS ISSUE, WHICH, AS YOU KNOW, IS SO VITAL TO THE ECONOMIC WELL-BEING OF MANY OF OUR CONSTITUENTS. ADDITIONALLY, I WANT TO COMMEND YOU FOR THE ATTENTION YOU HAVE GIVEN TO THIS SUBJECT, AS I UNDERSTAND THAT THIS IS THE THIRD HEARING THE SUBCOMMITTEE HAS HELD ON THIS LEGISLATION TO DATE.

IN MY HOME STATE OF GEORGIA, THE TEXTILES AND APPAREL INDUSTRY IS THE LARGEST MANUFACTURING EMPLOYER IN THE STATE. IT IS LITERALLY THE MANUFACTURING BACKBONE OF OUR STATE. TOTAL EMPLOYMENT IS APPROXIMATELY 177,500 PEOPLE. HOWEVER, OVER THE PAST FIVE YEARS WE HAVE SEEN A LOSS OF OVER 20,000 JOBS.

THE EFFECT OF CHEAPLY MADE FOREIGN IMPORTS ON THIS INDUSTRY HAS BEEN DEVASTATING. THIS IS ESPECIALLY SO IN RURAL AREAS. PLANT CLOSINGS IN LARGE CITIES ARE NOT ALWAYS NOTICED BY THE PUBLIC AT LARGE. BUT IN A SMALL TOWN, WHEN JUST ONE PLANT CLOSES, IT CAN LITERALLY TEAR A COMMUNITY APART. IT AFFECTS EVERYONE - THE CORNER DRUGGIST, THE SERVICE STATION OWNER, THE GROCER. EVERYONE FEELS THE IMPACT.

OPPONENTS OF THIS LEGISLATION POINT TO RECENT STATISTICS SHOWING THAT THE TEXTILE INDUSTRY HAS INCREASED ITS PROFITS. HOWEVER, THIS IS DUE IN PART TO THE CYCLICAL NATURE OF THIS INDUSTRY, AND TOTALLY IGNORES THE BASIS FROM WHICH THE PROFITS STEM. ANY RISE IN PROFITS WOULD LOOK GOOD AFTER THE BEATING THE INDUSTRY TOOK IN PREVIOUS YEARS.

WHILE IT APPEARS THAT TEXTILES HAVE DONE WELL OVER THE SHORT-TERM, IT IS THE LONG-TERM EFFECTS WITH WHICH THIS SUBCOMMITTEE MUST BE CONCERNED. THERE IS CERTAINLY NO INDICATION THAT IMPORTS ARE GOING TO DECLINE.

WE HAVE BEEN DEBATING THIS ISSUE FOR YEARS NOW AND THE SITUATION FACING THIS INDUSTRY IS NOT GETTING ANY BETTER. IT IS TIME THAT CONGRESS TOOK SUBSTANTIVE STEPS TO ADDRESS THE PRESSURES THAT ARE BEING BROUGHT TO BEAR ON OUR TEXTILE AND APPAREL INDUSTRIES.

I URGE THE MEMBERS OF THIS SUBCOMMITTEE TO WORK WITH THE REPRESENTATIVES OF THE TEXTILE AND APPAREL INDUSTRIES, TO BRING A BILL TO THE FLOOR WHICH WILL BE ACCEPTABLE TO OUR COLLEAGUES AND MEET THE NEEDS OF THIS INDUSTRY.

THANK YOU AGAIN FOR ALLOWING ME THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY.

THE HONORABLE OLYMPIA J. SNOWE, MC

***

TESTIMONY FOR THE WAYS AND MEANS SUBCOMMITTEE ON TRADE

THE TEXTILE AND APPAREL TRADE ACT OF 1987
(H.R. 1154)

Mr. Chairman, I wish to thank you for providing me with this opportunity to express my views in support of trade remedy legislation to provide relief to the domestic textile and apparel and footwear industries.

Over the past several years, I have testified many times before this Subcommittee, most recently in February regarding H.R. 3, the House trade reform bill. On each of these occasions, my chief concern has been that the United States must wake up to the realities of a global marketplace. Judging by the increased support, on this Subcommittee and throughout the House, for the trade bill, perhaps reality is beginning to set in.

This legislation, H.R. 1154, presents a fair trade response to two of our most important, and most import-swamped industries: the textile and apparel and footwear industries. I can only hope that this new awareness of our trade problems will be extended to these two industries, and that we will recognize the need to adopt industry-specific trade measures to redress trade distortions.

First regarding the bill's measures for the footwear industry, the provision to keep imports at an 81% penetration level is simply not as tough as it should be. I would prefer to contain the annual level of imports at 75%, still an astounding three-fourths of the domestic market. A 75% level represents, in my opinion, a minimum for this country if it wants to keep its industrial capacity to produce shoes.

A 75% import penetration level is the approximate level at the time of the President's inexcusable denial of relief for the footwear industry in September 1985. After this denial, the recommended relief provision in the textile/shoe bill, H.R. 1562, called for a 60% import level, to help the footwear industry modernize and to re-gain marketshare. This 60% level was based on the specific relief recommendations made a few months earlier by the International Trade Commission (ITC) to the President.

I am concerned that an 81% import level would not provide this industry with the opportunity it deserves to survive and grow. The opportunities to expand with a marketshare base of only 19% are limited indeed. For this reason, I urge the Committee to restore viability to this industry by controlling import levels at a level of 75%.

Certain countries, including Taiwan, Korea, and Brazil, have developed direct footwear production and export strategies and have picked as a target the ever-inviting American market. Using dirt-cheap wages -- $1.18 per hour in Taiwan, $.94 in Korea, and $.72 in Brazil -- imports to the U.S. have almost climbed off the charts. The result has been a 37% percent decline in domestic employment since 1981, the loss of 308 plant facilities, 70 last year alone, and thousands of workers layed-off.

In Maine, even since the President's denial of relief in 1985, 14 more plants have closed. Since 1982, Maine has lost an additional 7,500 footwear jobs with the closing of 19 more plants. We only have about 60 left.

Please try to imagine what it has been like for this industry, which has suffered 153% import growth since 1981, averaging 25% per year since that year, when orderly marketing agreements were lifted. Imports have gone from one-half of our market to over three-fourths of the market in just six years.

It is still absolutely galling to the footwear industry in my State of Maine to consider the President's decision in September 1985. As you know, the President opted to deny import relief to this industry having received a unanimous injury determination from the International Trade Commission. In encountering multiple frustrations while pursuing this trade case, which included over six separate Section 201 initiations since 1970, I concluded we have a process designed to exist but not to work. Up until now, the U.S. government simply has lacked the will to act decisively for fair trade, and perhaps no industry has suffered more than this one as a result of this concerted attitude of neglect.

As if to add insult to injury, the import growth into the U.S. continues unabated during 1987. This government, seemingly on purpose, failed to recognize a simple but dramatic trade inequity. Our government has turned its back on this industry one too many times; I fear this is our last chance to implement a policy that offers some hope of stemming the deluge of footwear imports -- enough to give our industry a chance to hold on to its remaining 20% of the domestic market.

As a government, I believe we must simply ask ourselves whether it is worth taking responsible and reciprocal actions for the domestic footwear industry to allow its survival. I believe it is. This industry has been quite literally knocked to its knees as a result of a tidal wave of foreign imports. We can't wait any longer, study further, or delay more than we already have. Such inaction is a disgrace for the footwear workers in my State of Maine and throughout this country.

The textile and apparel industry has fared only marginally better. Since 1980, import levels have doubled, 250 plants have closed, and over 300,000 jobs have been lost. In New England alone, over 60,000 workers lost their jobs. In the State of Maine, we have lost one-third of our workforce for this industry. Since 1970, 19 plants in Maine have closed, forcing 5,000 people out of work.

The plain truth for this industry has been tremendous production growth from the developing nations, a lack of response to this huge export growth by the United States, and the ineffectiveness of restraint agreements, including the Multi-Fiber Arrangement, to keep import growth within reasonable, negotiated growth limits. The MFA simply has not been enforced, and other countries are finding easy ways to circumvent agreements. An April 1987 Office of Technology Assessment report, in fact, states that "ineffective administration of the MFA is one reason given for the unprecedented surges in imports and harm to the domestic textile and apparel industry."

Despite the MFA, which calls for an upper level of 6% annual import growth for imports, the growth rate has averaged 21% since 1983. In 1986, the U.S. absorbed a 19% increase in imports for textile and apparel products, which served to add $21 billion to our $169 billion merchandise trade deficit. Even the newly negotiated MFA agreement last summer will do nothing to limit import growth, and imports may increase this year by 33% over last year.

The most gloomy aspect of the current reality of the textile and apparel industry is that the longer we wait to respond, the more damage we do. The same OTA report indicates that despite having one of the most productive industries in the world, if current import growth trends continue the U.S will stand to lose all sales of its apparel market and two-thirds of its textile market by the year 2000.

Compounding the problem of our inaction is that other industrial nations, including Japan, the European Economic Community and other countries have worked effectively to control import growth. The U.S. market has been looked upon by other nations with a smile of assured profits. Our controls are akin to the old joke about a screen door in a submarine, a virtual sieve for the export production of developing nations. In 1984, by one estimate, the U.S. was absorbing almost two-thirds of the developing countries' exports.

Meanwhile, Taiwan employs a virtual ban on textile and apparel imports and its government provided over $300 million from 1974-1979 to modernize its industry with low-interest loans; Brazil uses tariffs up to 205% on certain apparel products; South Korea uses a most restrictive import control list and low-interest government loans. The list goes on and on. The U.S. is virtually alone in terms of not recognizing an obvious problem and devising a sound means of responding to it.

In sum, there is a new market challenge, and the U.S. has not come to bat, or even peered its head out of its secluded free trade dugout, for the textile and apparel industries.

This legislation, by allowing only modest global import growth to two or our most trade-beleaguered industries, takes a limited and fair step in the right direction. As a government, we simply must wake up to what our workers have been staring in the face for almost a decade: there is an international marketplace with new and eager players ready to produce and compete with government assistance. We can simply no longer afford to close our eyes and watch industries disappear.

Mr. Chairman, I support H.R. 1154, and I urge its expeditious consideration and approval by the Subcommittee and the full Ways and Means Committee. Again, I want to express my appreciation to the Chairman for this opportunity, and the opportunity to provide the Subcommittee with my perspective on an issue of vital importance to the economy of the State of Maine.

Thank you.

STATEMENT FOR THE RECORD

BY THE HONORABLE FOFO I.F. SUNIA

MEMBER OF CONGRESS FROM AMERICAN SAMOA

Mr. Chairman and Members of the Subcommittee, thank you very much for this opportunity to incorporate my statement into the record. I realize how many individuals have asked to speak at this hearing. My constituents greatly appreciate your courtesy in allowing me to submit these prepared remarks.

INTRODUCTION

I would like to direct your attention to the inclusion of my congressional district and those of our colleagues, Messrs. Blaz and de Lugo, in the definition of foreign country in section 8(6) of H.R. 1154. The distinguished chairman of the Subcommittee on the Legislative Process of the Committee on Rules, the Honorable Butler C. Derrick Jr. (Dem.-S.C.), introduced the Textile and Apparel Trade Bill of 1987 on 19th February 1987; to date two hundred twenty-three (223) Members of Congress have joined as co-sponsors.

It must seem very odd to you, as it does to me, that this bill treats as foreign land belonging to the United States. However, I hope that Mr. Blaz's statement and mine will convince the members of this subcommittee that these American insular possessions deserve better care from the Congress of the United States than section 8(6) of H.R. 1154 presently affords them.

FIRST SUGGESTION

May I suggest that your subcommittee recommend that Congress impose a cap on the amount of textiles which may enter the customs territory of the United States from its insular possessions? I respectfully urge your favorable consideration of this addition to section 4 of H.R. 1154:

(d) Products of the Insular Possessions

(1) SPECIAL RULE FOR THE INSULAR POSSESSIONS. - Except as provided in subsections (2) or (3), the quantity of textiles and textile products which may be entered during a calendar year, which are (1) classifiable under a particular category and (2) the growth, product, or manufacture of an insular possession of the United States, shall be for each such category and each such insular possession, an amount equal to one quarter of one per centum of the total domestic production of textiles and textile products classifiable under such category for the second preceding calendar year.

(2) Notwithstanding any other provision of law to the contrary, the aggregate quantity that may be entered during the year commencing 1st November 1986 of cotton, wood or manmade fiber sweaters that are assembled in Guam from otherwise

completed knit-to-shape component parts, shall not exceed 163,216 dozen, and for succeeding years such aggregate quantity shall be adjusted pursuant to section 4(b).

(3) Notwithstanding any other provision of law to the contrary, the aggregate quantity that may be entered during the year commencing 1st November 1986 of cotton, wood or manmade fiber sweaters that are the product of substantial assembly operations in the Commonwealth of the Northern Mariana Islands from otherwise completed knit-to-wear component parts, shall not exceed dozen, and for succeeding years such aggregate quantity shall be adjusted pursuant to section 4(b).

(4) DEFINITIONS. For purposes of this section -

(1) The terms "domestic production" and "produced domestically" shall mean textiles and textile products produced within the customs territory of the United States.

(2). The term "insular possession of the United States" includes the Commonwealth of the Northern Mariana Islands.

This new subsection would guarantee that the textiles industry of the United States insular possessions would not in any way pose a threat to that in Hawaii or in the United States mainland. It would keep at one quarter of one per centum the amount of textile products which might enter the United States customs territory from any insular possession.

SECOND SUGGESTION

I recognize that some advocates of the stateside textiles industry might oppose the amendment supra. Although limiting the amount of textiles that the insular possessions might import into the United States customs territory, it would not touch on the status of those who had produced the textiles in the possessions. I acknowledge that it is not just the domestic textiles industry which has striven long and hard in this decade to keep Americans in jobs that American business has made.

Consequently, I join my colleague, the Honorable Ben Blaz (Rep.-Guam), in suggesting that the members of this subcommittee see the fine compromise that his amendment has effected in this area. My version infra of Mr. Blaz's section 4(d) differs only slightly from his. Here is mine:

(d) Products of the Insular Possessions

(1) SPECIAL RULE FOR THE INSULAR POSSESSIONS. - The provisions of this act shall not apply to wearing apparel manufactured or produced in an insular possession of the United States by workers who are

(a) United States citizens; or
(b) United States non-citizen nationals; or
(c) immigrants of the insular possession as defined by section 101(a)(15) of the Immigration and Nationality Act of 1952, as amended, whose provisions, except as it is clearly otherwise required, shall be so read so as to substitute "American Samoa" or "the Commonwealth of the Northern Mariana Islands" for "United States", with other changes in nomenclature and other language, including the omission of inapplicable language where necessary to effect the intent of this section; or
(d) permanent residents of the insular possession as determined by the laws of such possession on the date of enactment; or
(e) any or all of the above.

(2) DEFINITION. - The term "insular possession" includes the Commonwealth of the Northern Mariana Islands.

I cannot see how proponents of the domestic textiles industry would object to my qualification on the status of those whose work product would enter the United States customs territory. The industry operates right now with this definiton of "immigrant", that is, the one I urge should apply to American Samoa and the Northern Marianas. I do not mention Guam or the Virgin Islands here, as this section of the Immigration and Nationality Act (INA) already applies for each of these possessions. 8 U.S.C., sec. 1101 (a)(36) and (38).

Under the usage I propose, "immigrant" would include an alien who had come into an insular possession of the United States for the purpose of performing skilled or unskilled labor, who intended to abandon the residence he or she had had in a foreign country and who would not remain in the insular possession temporarily. Those familiar with the INA will see that I am trying to distinguish this definition of "immigrant" from the exceptions in section 101(a)(15)(B) and (H)(ii):

> an alien (other than one coming for the purpose of study or of performing skilled or unskilled labor or as a representative of foreign press, radio, film, or other foreign information media coming to engage in such vocation) having a residence in a foreign country which he has no intention of abandoning and who is visiting the United States temporarily for business or temporarily for pleasure;
>
> an alien having a residence in a foreign country which he has no intention of abandoning ... who is coming temporarily to the United States to perform temporary service or labor, if unemployed persons capable of performing such service or labor cannot be found in this country (.)

Of course, "American Samoa" or "the Commowealth of the Northern Mariana Islands" would replace "the United States" and "this country".

In this latter section 4(d) I construe "temporarily" and "temporary" to mean the same as pro tempore, i.e., for a period of time, e.g. a definite or certain number of weeks or months. I posit that its opposite is an indefinite, unfixed or unlimited time.

CONCLUSION

I stand ready to assist you and the members of your staff in working co-operatively to keep American business a possibility in the insular possessions of the United States.

STATEMENT OF THE TAIWAN FOOTWEAR MANUFACTURERS ASSOCIATION IN OPPOSITION TO H. R. 1154

This statement is submitted on behalf of the Taiwan Footwear Manufacturers Association, 131 Sungchiang Road, Taipei, Taiwan, Republic of China, in opposition to the enactment of H.R. 1154. The statement has been prepared by Tsu-wang Hu, who is duly registered under the Foreign Agent Registration Act, Registration No. 3791 (T.W. Hu, 5509 Nebraska Ave., N.W., Washington, D.C. 20015, Telephone: 628-1191).

As of May 5, 1987, the Taiwan Footwear Manufacturers Association (TFMA) has 1,357 members, encompassing the majority of manufacturers of footwear and footwear parts in Taiwan. For all intents and purposes, all footwear imported into the United States from Taiwan is produced by members of TFMA.

TFMA wishes to thank the Subcommittee on Trade of the Ways and Means Committee of the House of Representatives for this opportunity to present its views concerning H.R. 1145 and hopes that the members of the Subcommittee will take this statement into consideration.

1. Import Restraints Would Result In Increased Financial Burden To The American Consumer

H.R. 1154 would impose substantial financial burdens on the American consumer. In a study conducted by the International Business and Economic Research Corporation (IBERC), released in March 1987, it was estimated that for the first year alone, the bill would result in a 9 percent increase in the cost of imported shoes.

U.S. Department of Commerce statistics indicate that, in 1986, total imports of footwear were valued at US$6,175.4 million. A nine percent increase on such an import price would amount to US$555 million. At the retail level, this increase could amount to as much as $2 billion, an increase which would have to be borne by the American consumer.

Given the fact that most imported footwear, particularly footwear from Taiwan, is in the low to medium price range, this 2 billion dollars price increase would largely be borne by low to medium income families.

2. Import Restraints As Proposed In H.R. 1154 Will Distort The Market Distribution System

H.R. 1154 proposes to allocate imported non-rubber footwear into 15 categories in proportion to the quantities imported in each category during 1986. Each category is to be further divided by an arbitrary price line of $2.50 per pair into "high" and "low" priced non-rubber footwear. Thus, in actuality, 30 categories would be created.

This arrangement allows no flexibility among the categories. Thus, when and if there is any style or demand change, it will create an unbalanced supply and demand situation in the American market.

3. Import Relief As Proposed By H.R. 1154 Will Be Costly

In his memorandum to the United States Trade Representative dated August 28, 1985, President Reagan cited the Council of Economic Advisers' estimate that, in order to create 13,000 to 22,000 jobs with an annual wage of $14,000 per worker -- the goal suggested by USITC in the establishment of a global quota system -- it would cost $26,300 per job. Such a program would amount to $2.9 billion during the five-year quota program recommended by the USITC. Since H.R. 1154 does not set a time limit, the cost of the program could be much higher.

4. The American Footwear Industry Is Already Well Protected By High Tariff Rates

The United States is known to be a low import tariff country. The average duty on all commodities entering the United States is about 3% ad valorem. What is not generally known is that certain American industries, the footwear industry among them, are protected by unusually high tariff rates.

Tariff rates on imported footwear are discriminatory against low priced footwear, much of which is imported from Taiwan. The following examples illustrate the high tariff rates on certain imported shoes:

TSUSA NO.	Description	Tariff Rate
	Welt Footwear	
700.25	Not over $2.00 per pair	17% ad val.
700.26	$2.00 to $5.00 per pair	17¢ per pair
700.27	$5.00 to $6.80 per pair	5% ad val.
	Other Leather Footwear	
700.43	Not over $2.50 per pair	15% ad val.
700.45	Over $2.50 per pair	10% ad val.
	Other Footwear	
700.64	Not over $3.00 per pair	48% ad val.
700.67	$3.00 to $6.50 per pair	90¢ + 37.5% ad val.
700.69	$6.50 to $12.00 per pair	90¢ + 20% ad val.
700.71	$12.00 per pair and up	20% ad val.

5. There Is No Restriction On The Importation Of Footwear Into Taiwan

For many years, Taiwan has not imposed any restrictions on the importation of shoes. Any quantity of shoes may be imported from any free world country at any time, provided the importer pays duty on them.

American producers should be encouraged to export their products to Taiwan. TFMA as well as several government agencies would gladly assist American exporters in establishing business contacts to sell American goods in Taiwan.

6. The Tariff Rate On Imported Shoes In Taiwan Has Been Reduced

In recent years, the Taiwan government has reduced tariff rates on imported shoes twice. In late 1985, the rate on all imported shoes was 30% ad valorem; this was reduced to 15% ad valorem in October, 1986. In April of this year, it was further reduced to 10% ad valorem.

The 10% ad valorem rate is applicable to all shoes. It is much lower than many U.S. rates on shoes, which as noted run as high as 48%.

7. The Footwear Industry In Taiwan Is Also Facing Hardships

The footwear industry in Taiwan has faced tremendous hardships in recent years. The newly developed countries in

Asia and the Pacific are establishing textile and footwear industries which directly compete with Taiwan's exports.

In the manufacturing industry in Taiwan, the average monthly wage is NT$13,600, with an average work month of 209 hours. Using the current exchange rate of NT$31.72 to US$1.00, the average hourly wage is US$2.05.

Although considerably lower than the American rate, the US$2.05 hourly wage is much higher than that of our close competitors, the Republic of Korea and Hong Kong. Furthermore, it is much higher than that of many lesser developed countries in the area. Competition from these countries is cutting into the profit margin of every footwear manufacturer in Taiwan, particularly those making low priced shoes. Consequently, many small producers have gone out of business in the past year.

The recent appreciation of the value of the New Taiwan dollar, from NT$39.90 at the beginning of 1986 to that of NT$31.72 to US$1.00 on May 26, 1987, has caused further financial hardship to TFMA members. This 20.5% appreciation of the exchange rate has resulted in a 20.5% increase in labor cost. In addition, since most of the materials involved in the manufacture of the shoes are locally available, the manufacturer cannot take advantage of the favorable exchange rate to purchase imported raw materials.

In closing, TFMA wishes to reemphasize that H.R. 1154 will (1) result in increased financial burdens to the American consumer; (2) distort the American market distribution system; and (3) be costly to carry out. Furthermore, the American footwear industry is already well protected by high tariff rates. Therefore, it is hoped that H.R. 1154 will not be enacted.

TFMA wishes to thank the Subcommittee for this opportunity to present its views.

STATEMENT OF
THE TAIWAN TEXTILE FEDERATION
IN OPPOSITION TO H.R. 1154,
THE TEXTILE AND APPAREL TRADE ACT OF 1987

I. INTRODUCTION

This statement is submitted on behalf of the Taiwan Textile Federation ("TTF") of the Republic of China on Taiwan in response to the Notice of the Committee on Ways and Means soliciting comments on H.R. 1154, the Textile and Apparel Trade Act of 1987 ("the bill").

TTF respectfully submits that H.R. 1154 is both unwarranted and damaging to the larger interests of both the United States and Taiwan. The grounds offered by proponents of the bill are either plainly wrong or do not support imposition of measures that are as severe as those contained in H.R. 1154, especially against Taiwan. Contrary to oft-repeated assertions, Taiwan does not maintain tariff or non-tariff barriers to imports of U.S. textiles and apparel, nor are its manufacturers subsidized. Wage rates of workers in the textile and apparel industry are higher in Taiwan than in most countries of comparable level of economic development. The Taiwan textile and apparel industry is a significant customer of U.S. products, which sales would certainly be jeopardized by enactment of this legislation.

This sort of protectionist legislation is especially unwarranted in the case of Taiwan because of the absence of any threat of increased imports from Taiwan. A recently negotiated bilateral textile agreement effectively restricts practically all textile and apparel imports from Taiwan to well below 1% annual growth. As a result of these increased restraints and other factors, such as a rapidly appreciating currency, textile and apparel imports from Taiwan have actually decreased in 1987 and prices have increased. Taiwan thus could not be the source of any alleged impact on the domestic industry.

These facts must be weighed against the fact that the U.S. textile and apparel industry is enjoying extraordinary health and profitability. Employment, production, capacity utilization, sales and profits are up. In fact, it is performing well above the national average of U.S. manufacturing industries. Moreover, it is already one of the most protected industries in the United States -- achieved at enormous cost to U.S. consumers. The imposition of further regressive burdens on U.S. consumers is entirely unwarranted and would hit hardest those who can least afford it.

The damage done by enactment of this legislation extends far beyond the United States for the bill would violate the basis of the bargain struck by the United States in its bilateral and multilateral textile agreements and is contrary to the U.S. obligations under the GATT.

For these reasons, discussed in detail below, the TTF believes H.R. 1154 should not be enacted into law.

II. TAIWAN TEXTILE AND APPAREL IMPORTS ARE NOT INJURING AND DO NOT THREATEN THE U.S. INDUSTRY

A. Bilateral Agreements Provide Effective And Adequate Protection to the U.S. Industry

An incessant cry from proponents of the bill has been that imports, especially from major suppliers such as Taiwan, have "surged" and continue to "flood" the U.S. market, threatening the existence of the domestic industry. The facts, especially as they relate to Taiwan, belie that cry. Since at least 1962, textile imports from Taiwan have been subject to very strict limits imposed based on a bilateral agreement between the United States and Taiwan. In July of 1986, the U.S. and Taiwan entered into a new bilateral textile agreement which increased already severe restraints. The new bilateral included the following specific measures:

1. The product coverage was expanded to include non-MFA textile and apparel products, which had never been subject to restriction from any country in the past. The newly covered products included silk blends, linen, and ramie. With the inclusion of these products, the bilateral agreement effectively covered all types of textile and apparel products.

2. Import growth was all but eliminated. Overall, the new agreement limited import growth to approximately 0.5% (one half of one percent) on average. Moreover, the growth factors were based on import levels in 1985, which meant that imposition of the restraints would probably lead to import reductions in many categories. As discussed further below, these new restrictions have caused Taiwan imports to plummet.

3. The new bilateral agreement also imposed aggregate group limits for each of the major groups, which eliminate the possibility of using flexibility provisions to increase exports.

4. Sublimits aimed at specific types of products, such as ramie sweaters and yarn-dyed shirts, were also imposed in the new agreement in order to extend an additional measure of unwarranted protection to certain narrow segments of the U.S. industry.

New bilateral agreements also were entered into with most of the other major textile suppliers in 1986. These agreements contained increased restrictions of similar magnitude (though some cases are not as drastic). The 1986 bilateral textile agreement between the United States and Taiwan originally extended through 1988. In April of this year, based on substantial tariff reductions applicable to textile and apparel products agreed to by Taiwan, the United States and Taiwan agreed to extend the 1986 bilateral textile agreement through 1989.

The severe restraints contained in the U.S./Taiwan bilateral agreement are enforced through a strict system of export certification. Taiwan has adopted a sophisticated satellite communications system to advise the United States of the issuance of export certifications. These and other measures have ensured that the restraints agreed to in the bilateral agreement are being enforced and complied with.

B. Imports From Taiwan and Other Major Suppliers Are Decreasing

These severe new bilateral agreements have achieved what was intended by the United States -- a cutback in textile and apparel imports from the major suppliers. In the case of Taiwan, the impact has been dramatic, as the following data demonstrates.

Imports of Textiles and Apparel From Taiwan
(Million SYE)

	Year to Date			Year Ending		
	3/86	3/87	% Change	3/86	3/87	% Change
Total Imports	477.2	385.2	(19.27)	1,734.5	1,676.2	(3.36)
Total Apparel	273.8	226.5	(17.30)	1,048.8	1,006.1	(4.07)
Total Nonapp.	203.3	158.8	(21.92)	685.7	670.1	(2.27)
Total CWM	457.5	373.8	(18.28)	1,686.9	1,633.7	(3.15)
CWM Apparel	255.8	218.3	(14.66)	1,006.5	973.8	(3.25)
CWM Non-Apparel	201.6	155.5	(22.88)	680.4	659.9	(3.01)

Source: Major Shippers Report (Data through March 1987), dated May 13, 1987.

Total textile and apparel imports from Taiwan decreased nearly 20% in the first quarter of 1987 over the comparable period in 1986. The decrease was 3.4% for the year ending in March, 1987. The data further shows decreases in each of the aggregate subcategories, indicating that the decreasing total imports do not obscure any surges in narrower sectors. Total cotton, wool and manmade ("CWM") textile and apparel imports fell over 18% in the first quarter of 1987; in apparel, almost 15%; and in non-apparel products, nearly 23%.

The magnitude of these decreases demonstrate that this is not simply a minor aberration but rather a significant reduction in the volume of imports from Taiwan. While the value of Taiwan imports may have increased slightly, this is the result of significant appreciation of the New Taiwan Dollar ("NT$") and movement by some producers to higher value products in response to the restraints, and not an increase in volume of imports. The hard fact is that there were fewer textile imports from Taiwan in the first quarter of this year than last. It is difficult to imagine how this absolute decline in imports can be labeled a "surge" threatening the domestic industry.

Nor is this pattern of decreasing imports limited to Taiwan. Many of the traditional large suppliers have shown comparable decreases in imports in the first quarter of 1987. Countries which experienced a decrease in total textile and apparel imports in this period (as expressed in SYE) include Hong Kong (17.62%), Japan (18.65%), Italy (28.17%), and Pakistan (23.84%). Major Shippers Report. The "big three" as a whole showed a decrease of 12.4% in the first quarter of 1987 and essentially no growth at all for the year ending March, 1987. Id.

Significantly, even U.S. producers now admit that imports "have hit their high water mark. Even if the dollar strengthens, we have learned to defend ourselves and our markets more effectively and are pursuing the natural advantages we have with greater vigor and style." Spring Industries Quarterly Report, dated April 4, 1987.

Clearly, at a minimum, the traditional scapegoats of the textile lobby are no longer the source of any problems that may exist. It would be manifestly unjust to now adopt legislation that penalizes countries such as Taiwan for the imports of other countries.

C. Significant Appreciation of the New Taiwan Dollar Has Made It More Difficult For Taiwan Companies to Compete in the United States

Textile and apparel exporters in Taiwan have been confronted not only with an extremely restrictive new bilateral agreement, but also with a substantial appreciation of the NT$, making their products more expensive in the U.S. market. In fact, in the last 10 months alone, the NT$ has appreciated against the U.S. dollar by nearly 17%, rising from 38.1 NT$ to 33.0 NT$. The May 18, 1987 issue of the respected Journal of Commerce (at 8C) predicted that that appreciation would soon reach 20%.

On May 21, 1987 the ROC Government announced plans to lift certain foreign-exchange and capital controls as early as July. Attachment 1. The new regulations will allow free convertibility of the NT$ and free outflow of funds for overseas investments. These steps will reinforce the rapid appreciation in the value of the NT$.

In addition, Taiwan producers buy some of their fabric for their clothing exports from Japan, whose currency has also significantly appreciated. Even U.S. officials admit that this fact has recently slowed Taiwan exports to the United States. See Statement of Patrick C. Jackman, Senior BLS Official, New York Times (May 23, 1987) 35, col. 1.

This currency appreciation has made it much more difficult for Taiwan producers to compete in the U.S. market. In fact, they have recently lost substantial business in the United States. Even the

U.S. business press concurs that appreciation of the Taiwan dollar is now "choking off" Taiwan's exports. *Business Week* (April 13, 1987) 46. For instance, as a result of the currency appreciation, Taiwan sweater exports to the U.S. fell 33% in the first two months of this year compared to a year earlier. *Id*. at 47.

III. TAIWAN TEXTILE TRADE IS FREE AND FAIR

A. There Are No Tariff or Non-Tariff Barriers to U.S. Textile and Apparel Exports to Taiwan

Proponents of H.R. 1154 claim that textile supplying countries engage in a host of unfair or unreasonable trade practices relating to textiles and apparel. The allegedly unfair practices include imposition of tariff and non-tariff barriers, subsidies, and unreasonably low wages. With respect to Taiwan, these assertions are unfounded.

In the Fall of 1986, Taiwan undertook several rounds of tariff reductions on textile and apparel products. In conjunction with the negotiations over extension of the U.S./Taiwan bilateral textile agreement through 1989, Taiwan implemented the latest in a long series of tariff reductions applicable to textile and apparel products. The most recent tariff reductions covered nearly 500 textile and apparel items, with tariff cuts of as much as 75%. Generally speaking, tariffs applicable to textiles and apparel were cut in half. As a result of these tariff cuts, *duties applicable now to U.S. textile and apparel imports into Taiwan are lower than tariffs applied by the United States to such products imported from Taiwan*.

Supporters of H.R. 1154 continue to blindly press U.S. trading partners to lower their tariffs but ignore the fact that U.S. textiles are protected by tariffs that are probably higher than those on any other product group, *in addition to the enormous direct restraints imposed under the bilateral agreements*. The United States maintains tariffs averaging 18.6 percent on textile and apparel imports. Consistent with this history, H.R. 1154 seeks to exempt textiles from the upcoming Uruguay Round, much as textiles and apparel were protected from tariff cuts in the Tokyo Round.

With respect to non-tariff textile barriers, the U.S. Government acknowledged in connection with the negotiations for the extension of the 1986 bilateral that it did not consider there to be any such barriers in Taiwan. Accordingly, the United States requested no further action by Taiwan in that regard. For the United States to now adopt this punitive bill based on unfounded claims that such barriers exist would be most unfair.

The U.S. Department of Commerce study on regulations affecting U.S. textile exports, which has been cited by many of the bill's supporters, pointed to only three Taiwan regulations affecting U.S. exports. See *Foreign Regulations Affecting U.S. Textile/Apparel Exports*, U.S. Department of Commerce, International Trade Adminsitration, Office of Textiles and Apparel (April 1986) pp. 242-243. The first was the Taiwan import licensing program. Except for a very limited number of security/military items, such as military uniforms, there are no limitations imposed on textile imports as a result of this program and import licenses are easy to obtain. The second item, the customs duty uplift, has been eliminated. The third, the harbor tax, is not directed specifically to textile imports and is intended to provide for the development and maintenance of port facilities. Such harbor fees are charged throughout the world and cannot be viewed as an impediment to trade.

Moreover, Taiwan textile exports do not benefit from any unfair subsidy or other benefit bestowed by the government on the textile industry. In 1985, U.S. producers filed with the U.S. Department of Commerce a plethora of countervailing duty petitions against major suppliers (most of which they subsequently withdrew). Significantly, they did not file a petition against Taiwan. The reason they did not do so is clear: there are no Taiwan textile and apparel subsidies.

Rather than following the proper procedure and subjecting their Taiwan subsidy claims to rigorous investigation and verification by the Commerce Department, proponents of H.R. 1154 wish the U.S. Congress to accept them on an unsubstantiated and unverified basis.

B. Taiwan Is Not A Low-Wage Textile and Apparel Producer

Proponents of textile restraints assert that most of the major textile supplying countries with which the U.S. must compete in the international market enjoy enormous wage differentials which are somehow "unfair". This assertion does not hold up to close scrutiny.

For example, in testimony before this Subcommittee on May 18, 1987, Jay Mazur, president of the International Ladies' Garment Workers' Union, AFL-CIO, stated that Taiwan had a wage rate of $0.57 per hour (at p. 8). Similar statements have been made by other Congressional sponsors of the bill. The facts are quite different, as the following figures reveal:

Taiwan Textile and Apparel Wage Rates
(U.S.$/hr.)*

	1985	1986
Manufacturing	$1.57	$1.99
Man-Made Fiber	2.25	2.77
Textile	1.50	1.96
Apparel	1.23	1.59

---

* Assumes exchange rate of 39 NT$/1 U.S.$ for 1985, 32 NT$ for 1986.

Source: 1985-1986 Statistics on Taiwan Textile and Apparel Industries, Taiwan Textile Federation.

The actual wage rates in Taiwan have been considerably higher than the levels asserted by supporters of the bill. Moreover, these wages increased considerably in 1986 over 1985 (31% in the case of textile workers). While these wage rates are, of course, lower than prevailing wages in the United States, relative to other developing countries, they are high. Moreover, any wage differentials are more than offset by unusually high tariffs imposed by the Unites States on textile imports. See H.R. Rept. 99-293, 99th Cong., 1st Sess., p. 20.

There is a more fundamental issue at stake here, apart from the specific facts regarding wage rates, and that is the notion that competitive advantages in wage rates somehow should be considered unfair and should, by themselves, justify increased protection or retaliation by the United States. This notion is implicit in all the arguments of those who support H.R. 1154. The notion is wrong and damaging to the long term interests of the United States. Those who insist that trade policy should be directed toward compensating domestic industries because of wage differentials abroad repudiate generations of belief in the benefits to the U.S. economy of competitive advantage. The effect of such a policy, especially in cases where there was no "unfair act" other than the existence of low wages, would be to penalize developing countries simply because of their less developed economic condition. This position is untenable and contrary to fundamental principles upon which the world trading system is based. If such a precedent were established for the textile industry, would it not also apply to a myriad of other industries? Indeed such a theory would not acquiesce in the wide wage differentials that exist within the U.S. itself, where there has been a noted migration of textile and apparel jobs to right-to-work states.

C. The Taiwan Textile Industry Is A Major Consumer of Numerous U.S. Products

Those who are quick to press for increased restraints on textile imports often lose sight of or simply do not care about the larger two-way trade relationship in this sector. The Taiwan texile industry is a major consumer of U.S. products such as cotton and textile machinery and related equipment. In the last five years alone, Taiwan purchased nearly $620 million in U.S. cotton. 1986 U.S. Foreign Trade Highlights, U.S. Department of Commerce, International Trade Administration (March 1987), p. A-120. East Asian NIC's (Hong Kong, Singapore, South Korea and Taiwan) as a group bought $2.7 billion in U.S. cotton in this same period. Id. at A-112. These sales were related directly to the ability of these countries to export to the U.S. market.

More generally, in 1986 Taiwan was the 10th largest purchaser of U.S. exports and the 6th largest partner in terms of two-way trade. Id. at A-213, A-215. Taiwan was the 5th largest consumer of U.S. agricultural products in 1986, accounting for U.S. sales of $1.2 billion. Id. at A-253. While Taiwan does, of course, maintain a net trade surplus with the United States, it has made substantial and concerted efforts to increase purchases from the United States and reduce the surplus. This larger trade picture and relationship cannot be ignored in the debate over textile imports. The textile industry in Taiwan is a major industrial sector which provides critical foreign exchange earnings necessary to allow Taiwan to continue purchasing substantial amounts of U.S. products. It is short-sighted and misleading to speak only in terms of a two-way balance of trade in textiles. A serious setback to the Taiwan textile industry, such as may very well result from enactment of H.R. 1154, would have extensive adverse affects throuhout the Taiwan economy, and indeed on those U.S. exporters who have benefitted from Taiwan sales in the past.

IV. H.R. 1154 VIOLATES THE GATT

H.R. 1154 violates international agreements with respect to which the United States is a signatory, such as the GATT.[1] Article XI of the GATT prohibits the unilateral imposition by one country of quantitative import restrictions unless specifically authorized under a GATT rule. Proponents of the bill claim that its quotas are authorized by Article XIX of the GATT, the escape clause provision. By its terms, that article permits the imposition of temporary import restrictions in order to respond to increased imports of a specific product which, upon investigation, have been found to cause or threaten to cause serious injury to a domestic industry producing a like product.

The bill violates Article XIX in many respects.

One, it provides permanent rather than temporary relief. Its only limitation on the duration of import restrictions is a provision to review them every ten years; there is no provision for modification or termination of those restrictions.

Two, the bill's broad declaration of the existence of injury to an entire industry from increased imports does not meet the requirement of Article XIX of product by product injury findings based on a careful investigation. A product by product analysis would reveal that many subject textile and apparel products are not entitled to escape clause relief. For instance, U.S. cotton sweater producers, who have increased their production over tenfold since 1980, could not possibly claim injury from imports. Moreover, not all textile and apparel imports are increasing. For example, between 1984 and 1986, imports of purses and luggage (of manmade-fiber textiles under MFA category 670) declined 13%; imports of wool tops and yarn plummeted 22%; and, imports of woolen and worsted fabric fell 23%.

---

[1] Although Taiwan is not a GATT member, it has entered into bilateral trade agreements with the United States wherein the two sides have agreed to accept many of the GATT obligations and responsibilities with respect to each other.

Three, the compensation authority given to the President under the bill is far from adequate to satisfy the compensation claims of exporters injured by the bill's import restrictions (as permitted by Article XIX). As compensation, the bill permits the President to reduce textile and apparel tariffs by at most 10%, with the reductions to be phased in over a 5 year period. Thus, with the average textile and apparel tariff of 18%, the bill allows for at most only a 1.8 percentage point reduction in tariffs over a 5 year period, clearly inadequate to compensate for the stringent quotas it imposes. It should also be noted that the bill unilaterally dictates to exporters the compensation to be provided. By contrast, Article XIX envisions all parties negotiating with respect to the necessary compensation.

And, finally, four, the bill discriminates among countries. In conformity with the requirements of the Most Favored Nation Clause and Article XIII of the GATT, the quota relief Article XIX permits must be applied on a nondiscriminatory basis among countries. (For cites to the extensive legal authority on this point, see J. Jackson, International Economic Relations (1977) 621-22.) While the bill imposes quotas on imports from all countries, it does not require that they be imposed on countries on a pro rata basis based on some prior representative period, as Article XIX requires (id.). Rather, the bill permits stricter (indeed, far stricter) quotas to be imposed on some countries than others. There is every reason to believe, moreover, that the quotas would not be enforced in a nondiscriminatory fashion. Some of the proponents of the bill have actually suggested that it could be administered in precisely that fashion in an attempt to avoid violating the bilateral textile quota agreements which the United States has entered into with 35 countries. Even putting aside the fact that the U.S. Commerce Department has concluded that it would be impossible to avoid violating those bilaterals agreements by such gymnastics, administering the bill in such a discriminatory fashion would squarely conflict with the GATT.

It is noteworthy that even the U.S. Trade Representative has repeatedly and publicly stated that the bill clearly violates the GATT. In fact, he emphasized that point in testimony before this Subcommittee on May 18, 1987 (at page 17). This significant admission will not be forgotten by U.S. trading partners should the bill become U.S. law.

V. THE U.S. TEXTILE AND APPAREL INDUSTRY IS VERY HEALTHY

Textile and apparel producers claim that imports have caused a significant contraction in the textile and apparel industry with consequent employment losses. Studies by disinterested parties belie that claim. For instance, a recent study by the Congressional Budget Office of the U.S. Congress concluded that "imports have not caused an abrupt contraction in the industry. Although many firms have exited, existing firms have expanded and other firms, most notably apparel manufacturers, have entered." CBO, Has Trade Protection Revitalized Domestic Industries? (November 1986) 36.

Indeed, as numerous economic indicia reveal, the U.S. textile and apparel industry is extremely healthy, further demonstrating that it is not being injured by imports.

1. In 1986, the textile industry's return on equity was 14.5%, against the 9.6% average return for all manufacturing -- an astounding 51% greater than the manufacturing average. The 1986 annual reports of U.S. textile and apparel producers are replete with glowing remarks concerning their record profits. Morever, those annual reports observe that structural changes in their domestic operations are a major reason for that improved profitability. There

is no reason not to believe that they will continue to benefit from those structural changes in the coming years.

The year 1987 promises to be even more profitable for U.S. textile and apparel producers. The earnings of the ten largest U.S. textile firms skyrocketed 36% in the first quarter of 1987 over the first quarter of 1986, from $44 million to $59 million; for apparel firms, the increase was an even more staggering 59%, from $75 million to $119 million, representing an enviable 17% average return on equity. Source: quarterly financial reports (10Q's) filed with the SEC. By contrast, average after-tax profits of U.S. corporations fell 5.5% in the first quarter of 1987. Commerce Department, Wall Street Journal (May 26, 1987) 3.

U.S. textile producer Spring Industries admitted in its Quarterly Report dated April 4, 1987 that the U.S. textile industry is now entering "a period of potential strength and financial progress that may be greater than any we have seen over the last 100 years." Similarly, Jay Meltzer, an apparel analyst for Goldman Sachs, expects further "significant improvements" in the U.S. apparel industry for the remainder of 1987. And Ray Cowen, an apparel analyst for Value-Line, concluded that "it will be a good year for the apparel industry." Women's Wear Daily, at 2 (April 9, 1987). Finally, Burlington Industries recently commented on the

> improving trends in most of the apparel fabric markets and in selected industrial and home furnishing areas. The trend is expected to continue, and results for the current fiscal year...should be well ahead of those recorded in fiscal 1986. 10Q (May 11, 1987) 7. (emphasis added).

2. In the first quarter of 1987, the textile and apparel industries were operating at an impressive 92% and 90% of capacity respectively, well above the national average. Federal Reserve Board.

3. In 1986, domestic textile output rose 10%; apparel output, by 3%. Over a longer period, 1982-86, U.S. textile production leaped 27% and apparel production jumped 19%. Ways and Means Subcommittee Data Appendix, Table A-14.

4. For the year ending March 1987, U.S. textile and apparel industry employment is up 19,000. Journal of Commerce (May 28, 1987) 4A.

5. Investment in new plant and equipment by the textile and apparel industry is projected to increased by 8% in 1987 to a near record $1.9 billion. The U.S. International Trade Commission has repeatedly held that an industry which is undertaking significant investments cannot be considered to be injured by imports. See, e.g., Candles from the PRC, U.S. ITC Pub. 1888 (August 1986) 39. Those investments constitute tangible evidence that producers in that industry believe that it is a profitable industry.

VI. H.R. 1154 WOULD IMPOSE SIGNIFICANT COSTS ON U.S. CONSUMERS AND THE U.S. ECONOMY

For the following reasons, the bill would impose significant costs on U.S. consumers and the U.S. economy.

1. By constraining the supply of low-cost imports, the bill will force consumers to pay an estimated $10 billion a year more for clothing. Int'l Bus. & Economic Research Corp. (IBERC), Analysis of the Impact of the Textile and Apparel Trade Act of 1987 (1987) 5. That cost is on top of the $27 billion that existing textile and apparel import restrictions have imposed on U.S. consumers, as estimated in an exhaustive study by Dr. Gary Hufbauer, Wallenberg Professor at Georgetown University's School of Foreign Service. Trade Protection in the United States: 31 Case Studies (1986).

2. A related concern, the bill will contribute to inflation in the United States by increasing textile and apparel import prices (by

6%) and domestic textile and apparel prices (by 2%). IBERC, at 6. Recent inflation trends in the United States have already raised concerns that inflation has returned and may soon quickly accelerate. Significantly, among the seven major Consumer Price Index categories, apparel has shown the biggest increase in the two most recent months for which data is available (March and April). The rise in apparel prices was more than twice as much as any of the other six categories, and the two-month jump was the biggest since 1951. Indeed, in April, apparel prices increased at a disconcerting 18% annual rate (seasonally adjusted) according to the Bureau of Labor Statistics. (The three-month February to April annual rate was an equally disturbing 16.5%.)

3. The poor will be particularly hurt by increases in clothing cost caused by the bill. A substantial amount of imported textile and apparel imports are lower price merchandise distributed through "low-end" channels, and are purchased predominantly by lower income consumers. Accordingly, lower income consumers will pay the heaviest penalty under the bill as the prices rise and product upgrading reduces or eliminates the availability of less expensive clothing.

A recent extensive study of textile and apparel import quotas by the U.S. Congressional Budget Office similarly concluded that

> since imported apparel generally tends to be of lower quality and of lower price than domestic apparel, the burden of the quotas would tend to fall disproportionately on the consumers of such products, predominantly the poorer segments of the population.

CBO, Protecting the Textile and Apparel Industries (September 1985) 35. The U.S. Federal Trade Commission likewise concluded in its recent (1984) exhaustive study entitled "Import Quotas on Textiles: The Welfare Effects ..." (at 31) that the burden of textile and apparel quotas "fall[s] most heavily on low-income consumers as opposed to middle or high-income groups."

4. The bill would also cause a significant net job loss in the United States. It allegedly would save 47,000 jobs per year in the textile and apparel industry. IBERC, at 6. But, over 52,000 retail jobs would be lost due to reduced consumer spending on textile, apparel and footwear products whose prices will be inflated by the legislation. *Id.* Hence, on balance, 5,700 more jobs will be lost in the retail sector than protected in the manufacturing sector.

VII. H.R. 1154 UNDERMINES THE PROSPECTS OF MEANINGFUL PROGRESS IN THE CURRENT ROUND OF MULTILATERAL NEGOTIATIONS (THE URUGUAY ROUND)

In the current round of multilateral trade negotiations (the Uruguay Round), the United States hopes to reach new agreements regarding trade in services, investment and intellectual property. In three respects, the bill seriously undermines the prospects for meaningful progress in the Uruguay Round.

One, the bill, if adopted, would violate the commitment of all countries participating in the Uruguay Round (including the United States) to refrain from implementing new import restrictions and to liberalize existing restrictions. (Those commitments were expressed in the Standstill and Rollback provisions of the Punta del Este Ministerial Declaration.) Serious questions would thereby be raised as to the commitment of a major participant (the United States) to the Uruguay Round.

Two, the bill prohibits the President from negotiating in the Uruguay Round to reduce textile and apparel tariffs below the potential reduction contemplated under the bill. (That reduction itself, of course, is only for the purposes of providing compensation). U.S. textile tariffs average 18.6%, far in excess of the 3.6% average U.S. tariff on all other dutiable products. In the Uruguay Round, the United States needs to at least be in a position to be able to offer to reduce its significant trade barriers -- e.g., the substantial U.S. textile and apparel tariffs -- if it is to appear to be engaging in good faith negotations and if it is to expect other countries to be willing to offer trade concessions to the United States.

Perhaps more importantly, three, adoption of this bill now would send a signal to most of the developing countries or NIC's who depend so heavily on textile and apparel exports in their drive toward economic development that the United States is not prepared to abide by the rules it seeks to have others accept. H.R. 1154, if enacted, will speak clearly to these countries and it will raise in them a substantial degree of skepticism regarding the fairness of the system that the United States would have them support.

VIII. CONCLUSION

As is set forth above, enactment of H.R. 1154 would be unwarranted and damaging to larger U.S. interests. The U.S. textile and apparel industry is not threatened with increasing imports. Severe bilateral agreements have eliminated almost all import growth, and, in the case of Taiwan, actually have led to significant decreases in textile and apparel imports. Taiwan, moreover, engages in no unfair trading practices affecting textile and apparel trade. There are neither tariff nor non-tariff barriers, and wage rates and currency valuation have increased significantly. These facts, combined with the unusually healthy condition of the U.S. industry and the enormous additional burdens increased protection will place on U.S. consumers, counsel strongly against enactment of legislation such as this. On these grounds the TTF respectfully urges that H.R. 1154 not be enacted into law.

Dated: May 29, 1987

Respectfully submitted,

Italo H. Ablondi

Italo H. Ablondi
Sturgis M. Sobin
Peter J. Koenig

ABLONDI & FOSTER, p.c.
1776 K Street, N.W.
Washington, D.C. 20006
(202) 296-3355

Counsel to the
Taiwan Textile Federation

This statement has been prepared by the law firm of Ablondi & Foster p.c. which is registered under the Foreign Agents Registration Act as an agent of the TTF. The Firm's registration statement is available for public inspection at the Department of Justice. Registration does not indicate approval of the content of this material by the United States Government.

ATTACHMENT 1

Taiwan Unveils A Plan to Remove Currency Controls

A WALL STREET JOURNAL *News Roundup*

The Taiwanese government said it plans to lift some foreign-exchange and capital controls as early as July.

Some U.S. analysts said the lifting of the controls could lead, in the near term at least, to an increase in the value of the New Taiwan dollar, which has climbed about 20% against the U.S. dollar over the past two years under existing regulations.

That, in turn, could help ease pressure on Taiwan from Washington. The U.S. has been pressing Taiwan to allow its currency to move upward to help narrow the trade imbalance between the two countries; a higher Taiwanese currency makes U.S. goods more competitive. Taiwan's overall trade surplus reached $15.5 billion in 1986 and totaled $5.8 billion in the first four months of this year. Much of that surplus was with the U.S.

The U.S. Treasury had no immediate comment on the measures planned by Taiwan.

New Regulations

Taiwan's cabinet yesterday approved revised regulations that will allow free convertibility of the New Taiwan dollar and the free outflow of funds for investment in overseas property, equity and other capital markets.

Under current regulations, all foreign exchange earned by Taiwanese must be converted into New Taiwan dollars. The public also can invest only indirectly in overseas capital markets, through funds managed by five government-appointed banks. Those investments are restricted to relatively safe but low-yielding U.S. Treasury and bank securities.

Government officials said they expect the Legislative Yuan to pass the proposed revisions before the lawmaking body goes into recess in July. The government will implement the new rules "very soon" after their passage, said Chen See-ming, director of the Finance Ministry's monetary affairs department.

Although the wording of the new regulations allows the government to reimpose the controls if it sees fit, Philip Chou, general manager of the central bank's foreign-exchange department, said suspension of the controls will be "a long-term policy" and they will be reimposed only under special circumstances.

Restrictions on Inflows

While current restrictions on incoming capital will remain in force, bankers said the proposed reforms may attract into Taiwan new funds from foreign institutions wishing to ride the current stock-market boom.

Foreign investors previously had shunned Taiwan because winnings in the stock market couldn't be taken out of the country. Now, money from these institutional investors would exert upward pressure on Taiwan's currency, the bankers added.

Mr. Chen, the Ministry of Finance official, said yesterday that capital-inflow controls "will still be in place to keep out the hot money." But bankers said the rules aren't difficult to get around. Funds brought into the country in amounts subject to approval simply can be divided into smaller portions.

The bankers added that an estimated $8 billion of speculative funds has been injected into Taiwan in the past 16 months. Capital inflows have shown no sign of faltering since the implementation of controls in mid-March, underscoring their ineffectiveness, bankers said.

Inflation Concerns

Taiwan's government hopes that by allowing capital to leave the country freely and by not requiring the conversion of foreign currency into New Taiwan dollars, it eventually will be able to rein in money supply growth, which threatens to spark an increase in inflation.

Taiwan's M1-B money-supply measure, which reflects checking and demand deposits, rose at an annual pace of 50.2% in February.

WALL STREET JOURNAL
MAY 22, 1987, p. 15

COMMENTS OF THE TOY MANUFACTURERS OF AMERICA on H.R.1154, "THE TEXTILE AND APPAREL TRADE ACT OF 1987."

These comments are filed by Sharretts, Paley, Carter & Blauvelt, P.C. on behalf of the Toy Manufacturers of America (TMA), the toy industry trade organization representing 250 American companies which account for 90 percent of the $12 billion toys, games and dolls sold in the United States each year, in response to a Press Release, dated April 24, 1987, soliciting public comment on H.R. 1154, "The Textile and Apparel Trade Act of 1987."

If enacted, H.R.1154 would establish worldwide quotas on all textiles and textile products covered by a textile category, currently identified by a three-digit number in the Department of Commerce publication, "Correlation: Textile and Apparel Categories with Tariff Schedules of the United States Annotated." It also would prohibit the President from entering into trade negotiations with any foreign country "with respect to duties on textiles and textile products" and from "decreasing, or proposing a decrease, in any such duty by any means." Textile products are defined in H.R. 1154 as including, but "not limited to," all articles covered by a category.

Insofar as any provision of H.R. 1154 encompasses toys, and toy related products, within its scope, TMA vehemently opposes its enactment. In this regard, the House of Representatives must recognize the unique conditions of competition within the U.S. toy industry. TMA's member companies are fiercely competitive. Competition, however, is not between domestic producers and importers so much as it is between American based corporations with rationalized production facilities desiring to increase their sales in the U.S. market. While a substantial portion of the value of toys sold in the U.S. represent value added in the U.S. (development and design costs, tooling, marketing, advertising, component parts, packing, etc.), American toy companies have turned to foreign sources to produce certain small toys and component parts, which no longer can be sold at competitive prices if produced in the U.S. In this manner, the American toy industry has survived and prospered. It is for these reasons that TMA urges the House of Representatives to segregate those toys, games and component parts imported and sold by TMA members from those imports which are subject to extensive political controversy (e.g., textiles and wearing apparel) and to ensure that toys, games, and toy related articles are not subjected to the high rates of duty and the imposition of quota restraints and licensing requirements, applicable to products imported in competition with other American industries (e.g., textiles and wearing apparel).

To accomplish this objective, TMA urges the House of Representatives to expressly exclude from H.R. 1154 all articles currently classified in Subpart E, Part 5, Schedule 7, Tariff Schedules of the United States, which encompasses "Models, dolls, toys, tricks, and party favors." This objective could readily be accomplished by amending Section 8(1) of H.R. 1154, as follows.

CURRENT PROVISION

For purposes of this Act -

(1) The term, "textiles and textile products" includes, but is not limited to, all articles covered by a category

PROPOSED PROVISION

For purposes of this Act -

(1) The term "textiles and textile products" includes, but is not limited to, all articles covered by a category, but does not include any merchandise classifiable in Subpart E, Part 5, Schedule 7, Tariff Schedules of the United States.

In lieu of expressly amending H.R. 1154, TMA urges that the House Committee Report on H.R.1154 contain an expression of intent that Congress did not intend to include merchandise classified in Subpart E, Part 5, Schedule, 7, TSUS, within the definition of textile products in Section 8(1) of H.R. 1154.

When the policy objectives and findings and determinations in Sections 2 and 3 of this proposed legislation are examined, it is clear that the authors of H.R.1154 were not concerned with the importation of toys -- especially when American toy manufacturers, through TMA have consistently and actively opposed the imposition of quota restraints and licensing requirements on competitive products. Rather than be seriously damaged, or threatened with serious damage by imported products -- as domestic textile and textile product producers have claimed -- domestic toy manufacturers require imports to complement their own domestic operations. The domestic toy industry is not the domestic textile industry, and to guard against the possibility that in the future persons responsible for administering H.R.1154 could misinterpret its intended scope,1/ TMA urges that Congress take whatever steps it deems necessary to ensure that the U.S. Toy industry is not caught up in the controversy surrounding textile imports.

In sum, TMA urges that H.R.1154 be amended to expressly exclude toys from its scope, or at the very least that Congress indicate its intent that this proposed legislation does not encompass any article classified in Subject E, Part 5, Schedule 7, TSUS.

1/ It is TMA's opinion that even as presently constructed, H.R. 1154 does not include textile toys and textile toy related products since these products derive their essential characteristics from their amusement features rather than from any textile component of which they are composed. In this regard, TMA notes that for an article to be classified in Subpart E, Part 5, Schedule 7, TSUS, it must be "chiefly used for the amusement of children or adults." However, TMA is concerned that in the future, U.S. Government officials responsible for administering this Act could conclude that any toy composed of textile material should be subjected to the provisions of H.R.1154. This concern is based on TMA's experience in the past several years in which Administration officials have included doll clothing and skins for toy figures of animate objects among those products subject to directives involving the Reagan Administration's Textile Import Program. To guard against a reoccurrence of this nature, TMA believes that Congress should expressly exclude toys from the scope of H.R.1154.

TURKISH EMBASSY
WASHINGTON, D.C.

RECEIVED
MAY 28 1987
COMMITTEE ON TRADE

May 18, 1987

The Honorable Sam Gibbons
U.S. House of Representatives
2204 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Gibbons:

I would like to bring to your attention the views of the Turkish Government regarding the Textile and Apparel Trade Act of 1987, H.R. 1154 and S. 549, and the possible textile quota amendment to the comprehensive Senate trade bill, S. 490. The proposed bills and the amendment provide for permanent global quotas on all imports of textiles, apparel, and textile-related products from all countries fixed at the 1986 import levels with a maximum growth rate of one percent per year.

We submit that the proposed legislation not only violates the General Agreement on Tariffs and Trade by unilaterally imposing permanent quotas, but also is inconsistent with the international obligations of the United States under the Multifiber Arrangement ("MFA"), as well as various bilateral textile agreements. I hasten to add that the bilateral textile agreement that was concluded after arduous negotiations between Turkey and the United States also will be adversely affected.

Under the MFA bilateral textile trade could be restricted only upon the determination of a specific market disruption, but even then there must be exceptional circumstances. In addition, unilateral action such as imposing quotas on categories of goods should be resorted to solely as a last remedy and after the complete exhaustion of the consultation mechanism. By having all countries -- developed and developing -- under one uniform quota regime, the proposed legislation ignores the obligation of the United States to provide more favorable treatment to textile imports from developing countries under multilateral agreements. Furthermore, the House and Senate bills completely ignore all of the established safeguards and impose permanent world-wide quotas contrary to the letter and spirit of the GATT, MFA, and the Turkish-U.S. bilateral textile agreements. Of course, this proposed legislation would also further complicate the round of GATT negotiations that began in Uruguay.

The textile industry is one of the sectors in the world economy which is subject to an elaborate protection scheme such as that under MFA. Trade in textiles constitutes an exception to the normal rules of the GATT, yet are endorsed by all signators to the MFA because of the strict agreed upon system of safeguards surrounding the use of such protection. For the protection of the domestic textile industry the United States has concluded a series of 39 bilateral agreements pursuant to the MFA. To impose further restrictions as proposed would be onerous and violate basic international trading principles in addition to abrogating international obligations.

Finally, the quotas in the legislation would have a serious adverse effect on economic and trade relations between the United States and Turkey, which since 1980 have shown marked signs of growth and vibrancy. Turkey is one of the few countries with which the United States enjoys a considerable trade surplus. By unwarrantingly restricting Turkish textile exports the proposed legislation will possibly reduce the ability of our economy to absorb the surplus created by U.S. exports to Turkey.

I would like to solicit your support in having these views of the Turkish Government taken into account during the deliberations of the proposed legislation in Congress.

Sincerely,

Dr. Sukru Elekdag
Ambassador of the Turkish
Republic

STATEMENT OF GERARD J. VAN HEUVEN
EXECUTIVE VICE PRESIDENT, UNITED STATES-MEXICO
CHAMBER OF COMMERCE (USMCOC)
BEFORE THE SUBCOMMITTEE ON TRADE,
COMMITTEE ON WAYS & MEANS,
U.S. HOUSE OF REPRESENTATIVES
ON THE TEXTILE AND APPAREL TRADE ACT OF 1987.

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, MY NAME IS GERARD J. VAN HEUVEN, EXECUTIVE VICE PRESIDENT OF THE UNITED STATES-MEXICO CHAMBER OF COMMERCE (USMCOC), A BINATIONAL NON-PROFIT ORGANIZATION WHICH REPRESENTS MANY OF THE U.S. COMPANIES OPERATING IN MEXICO AND THE BUSINESS INTERESTS OF OVER 250,000 MEXICAN FIRMS, MANY ENGAGED IN TRADE WITH THE U.S. OUR MEMBERSHIP INCLUDES MANY OF THOSE U.S. TEXTILE COMPANIES OPERATING UNDER U.S. TARIFF ITEM 807, AND THOSE U.S. INDUSTRIES SELLING EQUIPMENT, MACHINERY, AND SPARE PARTS TO MEXICO'S OWN TEXTILE INDUSTRY. THE MEXICAN TEXTILE CHAMBER IS ALSO A MEMBER OF THIS CHAMBER.

WE APPRECIATE VERY MUCH THE OPPORTUNITY TO PRESENT THE VIEWS OF THE USMCOC JOINING WITH OTHER WITNESSES BEFORE THIS SUBCOMMITTEE IN OPPOSITION TO H.R. 1154, THE TEXTILE AND APPAREL TRADE ACT OF 1987. WE OPPOSE THE BILL FOR FIVE REASONS:

THE LEGISLATION IS NOT NEEDED

GIVEN EXISTING RESTRAINTS ON IMPORTS UNDER THE MULTI-FIBER AGREEMENT (MFA), THE NUMEROUS BILATERAL TEXTILE AGREEMENTS LIMITING TEXTILE EXPORTS TO THE UNITED STATES FROM OTHER COUNTRIES, AND THE RELATIVE PROFITABILITY OF THE U.S.'TEXTILE AND APPAREL INDUSTRIES AT THIS TIME, H.R. 1154 IS NOT NECESSARY. THE UNITED STATES TEXTILE AND APPAREL INDUSTRIES HAVE BEEN THE BENEFICIARIES OF EXTRAORDINARY PROTECTION FROM IMPORTS FOR THIRTY YEARS. THE TEXTILE AND APPAREL PRODUCERS HAVE CONTINUALLY ADJUSTED BOTH TO DRAMATIC CHANGES IN THE DOMESTIC MARKET AND INCREASED COMPETITION FROM A GROWING NUMBER OF TEXTILE EXPORTING COUNTRIES. ENACTING AN ACROSS-THE-BOARD RESTRAINT ON IMPORTS OF TEXTILE AND APPAREL PRODUCTS WOULD INCREASE THE ALREADY SUBSTANTIAL SUBSIDY IN THE FORM OF NEGOTIATED EXPORT RESTRAINTS CURRENTLY ENJOYED BY ALL PRODUCERS IN THESE INDUSTRIES, SOME OF WHICH ARE COMPETITIVE IN THE U.S. AND EXPORT MARKETS. ENACTING SUCH LEGISLATION CAN ONLY DAMAGE THE LONG RUN TRADING INTEREST OF THE UNITED STATES.

THE BILL IS DISCRIMINATORY

WHAT IS MOST OBJECTIONABLE ABOUT THE SPECIFIC EFFECTS OF H.R. 1154 IN SO FAR AS THE CHAMBER IS CONCERNED IS THAT IT IS EXTREMELY DISCRIMINATORY. BECAUSE OF THE HIGH LEVEL OF EXPORTS FROM THE PACIFIC RIM COUNTRIES, WHICH HAVE BUILT THEIR TEXTILE AND APPAREL INDUSTRIES ON EXPORT SALES TO THE UNITED STATES, THE BILL WOULD EFFECTIVELY CAP MEXICO'S EXPORTS OF TEXTILES AND APPAREL TO THE UNITED STATES AT A VERY LOW LEVEL. COMPARE, IF YOU WILL, A ONE PERCENT GROWTH FACTOR FOR EXPORTS OF TEXTILE AND APPAREL FROM TAIWAN OF $2.8 BILLION WITH A ONE PERCENT GROWTH FACTOR OF $3.6 MILLION FOR EXPORTS OF TEXTILES AND APPAREL FROM MEXICO TO THE UNITED STATES.

THE TEXTILE AND APPAREL INDUSTRIES IN MEXICO HAVE, FOR A NUMBER OF YEARS, BEEN LIMITED BY A NUMBER OF FACTORS, INCLUDING AN OVERVALUED MEXICAN PESO. THE TEXTILE AND APPAREL PRODUCERS IN MEXICO HAVE NEVER DISRUPTED OR THREATENED TO DISRUPT THE UNITED STATES TEXTILE AND APPAREL MARKETS. IN FACT, SINCE 1967, MEXICO HAS LIVED UP TO A BILATERAL TEXTILE EXPORT RESTRAINT ARRANGEMENT WITH THE UNITED STATES AND HAS ACTUALLY NEVER FILLED ALL OF THE VARIOUS TEXTILE QUOTAS CONTAINED IN THIS ARRANGEMENT. THIS IS DUE NOT ONLY TO MEXICO'S LACK OF EXPORT ORIENTATION BUT ALSO TO WHAT OFTEN ARE DAMAGING INTERPRETATIONS OF PRODUCT DESCRIPTIONS IN CERTAIN QUOTA CATEGORIES. THOSE INTERPRETATIONS AMONG EXPORTERS IN MEXICO PRODUCED GREAT UNCERTAINTY AS TO MARKET ACCESSIBILITY IN THE UNITED STATES. THE FAILURE TO FILL SUCH QUOTA VOLUMES WAS NEVER DUE TO THE LACK OF PRODUCT QUALITY OR PRODUCTION CAPACITY.

IN FACT, MEXICO'S TEXTILE INDUSTRY IS AMONG THE MOST MODERN IN LATIN AMERICA, WITH THE LARGEST NUMBER OF AUTOMATIC LOOMS. THE INDUSTRY IS AN IMPORTANT EMPLOYER, PROVIDING MORE THAN 600,000 JOBS, AND ACCOUNTING FOR 4 PERCENT OF THE GROSS DOMESTIC PRODUCT OF MEXICO. UNLIKE THE TEXTILE INDUSTRY IN OTHER COUNTRIES IT IS ALMOST ENTIRELY SUPPLIED BY AMERICAN COMPANIES INCLUDING INDUSTRIAL EQUIPMENT AND MACHINERY, SPARE PARTS AND OTHER INDUSTRIAL SUPPLIES.

THE BILL FAILS TO ACCOUNT FOR U.S. CONTENT IN MEXICO'S TEXTILE AND APPAREL EXPORTS.

THERE IS ANOTHER SPECIAL RELATIONSHIP BETWEEN UNITED STATES AND MEXICAN INDUSTRIES WHICH SHOULD BE CONSIDERED. NOT JUST BECAUSE OF OIL, BUT BECAUSE OF THE 807/MAQUILA INDUSTRIES ALONG THE U.S./MEXICAN BORDER, MEXICO IS AMONG THE TOP FOUR U.S. TRADING PARTNERS. FOR A NUMBER OF YEARS THE TEXTILE/APPAREL PART OF THIS TRADE RELATIONSHIP HAS BEEN REFERRED TO IN THE BILATERAL AGREEMENTS BETWEEN MEXICO AND THE UNITED STATES ON TEXTILES AND

APPAREL. EACH OF THESE AGREEMENTS HAS CONTAINED SOME REFERENCE TO THE SPECIAL RELATIONSHIP THAT EXISTS BETWEEN U.S. TEXTILE AND APPAREL PRODUCERS AND APPAREL AND TEXTILE PRODUCTION PLANTS IN MEXICO. SUCCEEDING TEXTILE NEGOTIATING TEAMS AND ADMINISTRATIONS HAVE RECOGNIZED THAT THE UNITED STATES HAS OBLIGATED ITSELF TO GIVE SPECIAL CONSIDERATION TO THE FACT THAT A SUBSTANTIAL PROPORTION OF APPAREL AND TEXTILE PRODUCT EXPORTS FROM MEXICO CONTAINS TEXTILE MATERIALS MADE IN THE UNITED STATES. HOWEVER, THAT RECOGNITION AND OBLIGATION HAS YET TO BE SPECIFICALLY IMPLEMENTED IN TERMS OF ADJUSTED QUOTA LEVELS TO REFLECT THE U.S. CONTENT OF APPAREL EXPORTED FROM MEXICO AND ENTERING THE UNITED STATES UNDER TARIFF ITEM 807.00

IN TERMS OF RATES OF DUTY THE SPECIAL RELATIONSHIP BETWEEN THE UNITED STATES AND MEXICO IS PROVIDED FOR IN MEXICO BY THE FREE IN-BOND ENTRY OF U.S. TEXTILE MATERIAL FOR MAQUILA OPERATIONS. THESE OPERATIONS ARE FOR THE MOST PART THE ACTIVITIES OF WHOLLY OWNED U.S. FIRMS ASSEMBLING TEXTILE PRODUCTS AND APPAREL FROM U.S. MATERIALS. THE UNITED STATES PARTICIPATES IN THIS SPECIAL ARRANGEMENT BY PROVIDING DUTY FORGIVENESS BASED ON THE VALUE OF U.S. CONTENT IN TEXTILE AND APPAREL EXPORTS FROM MEXICO AND ENTERING UNDER U.S. TARIFF ITEM 807.00.

HOWEVER, IN TERMS OF THE QUANTITATIVE LIMITATIONS ESTABLISHED UNDER THE BILATERAL TEXTILE ARRANGEMENTS, THE FACT THAT ALMOST THREE FOURTHS OF THE VALUE OF MEXICAN TEXTILE AND APPAREL EXPORTS TO THE UNITED STATES ENTERING UNDER ITEM 807.00 IS ACCOUNTED FOR BY VALUE OF U.S. MATERIALS INCLUDED IN SUCH IMPORTS IS COMPLETELY IGNORED.

IN CALENDAR YEAR 1986, MEXICO EXPORTED $359.3 MILLION IN COTTON, WOOL AND MANMADE FIBER TEXTILE PRODUCTS AND APPAREL TO THE UNITED STATES. OF THAT TOTAL, $241.3 MILLION OR 67 PERCENT ENTERED THE UNITED STATES UNDER TARIFF ITEM 807.00. BASED ON STATISTICS FROM THE U.S. INTERNATIONAL TRADE COMMISSION, IT IS CLEAR THAT JUST UNDER 75 PERCENT OF SUCH IMPORTS UNDER ITEM 807.00 WAS ACCOUNTED FOR BY U.S. CONTENT, I.E. MATERIALS EXPORTED FROM THE UNITED STATES FOR ASSEMBLY INTO APPAREL OR OTHER TEXTILE PRODUCTS FOR REEXPORT TO THE UNITED STATES.

MOREOVER, TOTAL U.S. EXPORTS OF TEXTILES AND APPAREL TO MEXICO IN 1986 WERE $336 MILLION, OF WHICH $163 MILLION WAS APPAREL, $162 MILLION IN FABRICS, AND $11 MILLION WAS YARN.

THE BILL FAILS TO ACCOUNT FOR THE TOTAL TWO WAY TRADE IN TEXTILES BETWEEN OUR TWO COUNTRIES

Given the special relationship that Mexico has in terms of textile and apparel trade, a relationship ignored by H.R. 1154, the total two-way trade must be taken into account. It is estimated for every dollar in Mexico's exports to the U.S., the U.S. exports $2.85 to Mexico. Also, these figures do not take into account purchases of apparel by Mexican in-bond assembly workers in U.S. border towns such as El Paso, Nogales, San Diego, etc.

THE BILL FAILS TO ALLOW MEXICO TREATMENT EQUIVALENT TO THAT BEING OFFERED COUNTRIES BENEFITING FROM THE CARIBBEAN BASIN INITIATIVE.

The United States has seen fit to recognize the importance of textile and apparel production to the economic viability and political stability of the Caribbean Basin region. It does so through the administration of so-called 807A or guaranteed access levels program for textile product and apparel imports from qualifying Caribbean Basin Initiative beneficiary countries. This program rests on the foundation that such guaranteed access requires the use of textile materials produced in, and cut into pieces, in the United States. Based on the use of U.S. materials, beneficiary countries may negotiate guaranteed access levels by specific textile categories.

We submit that given past and ongoing obligations to Mexico regarding the substantial U.S. textile material content in Mexican apparel and textile product exports to the United States, and in the interest of U.S. textile material producers, the United States should immediately recognize the magnitudes of such U.S. materials being returned to the United States by increasing the levels of quantitative limitations presently being applied to textile and apparel imports from Mexico under the bilateral textile agreements.

What is really at stake here is treatment for U.S. apparel producers in Mexico, many of whom are members of the U.S.-Mexico Chamber of Commerce, equivalent to the treatment being offered the beneficiary countries of the Caribbean Basin Initiative. Such treatment can be achieved by increasing the quota levels currently provided in the bilateral agreements.

Encouraging stability and growth in Mexico in those industries closely allied with U.S. manufacturers is a contribution that the United States alone can make to the stability and economic growth

IN ITS COMMON BORDER AREA WITH MEXICO. SUCH STABILITY AND ECONOMIC GROWTH ARE VERY CLOSELY RELATED TO THE CONCERNS WHICH CAUSED PRESIDENT REAGAN TO UNDERTAKE THE GUARANTEED ACCESS LEVELS PROGRAM FOR CARIBBEN BASIN INITIATIVE BENEFICIARIES, A DEEP AND ABIDING CONCERN WITH THE POLITICAL STABILITY AND ECONOMIC RECOVERY AND DEVELOPMENT OF THE WHOLE REGION.

CONCLUSION

THE U.S.-MEXICO CHAMBER OF COMMERCE URGES THIS SUBCOMMITTEE NOT TO FAVORABLY REPORT H.R. 1154.

HOWEVER, WE FURTHER URGE THAT IN THE COURSE OF THE CONSIDERATION OF THIS BILL AND ITS OVERSIGHT CAPACITY, THIS SUBCOMMITTEE SHOULD RECOMMEND FLEXIBILITY UNDER THE TEXTILE PROGRAM TO ACCOMMODATE THE TRADE OF U.S. APPAREL FIRMS OPERATING IN THE IN-BOND/MAQUILA PLANTS IN MEXICO UTILIZING U.S. TEXTILE MATERIALS. WE ALSO URGE YOU TO INSTRUCT THE ADMINISTRATORS OF THE TEXTILE PROGRAM TO GIVE FULL MEANING TO THE ROLE THAT U.S. MATERIALS ASSUME IN THE TEXTILE AND APPAREL TRADE BETWEEN THE UNITED STATES AND MEXICO WHICH IS MUTUALLY BENEFICIAL BOTH IN TERMS OF TRADE AND IN THE ECONOMIC STABILITY OF THE BORDER REGION.

FINALLY, AT A TIME WHEN THE U.S. IS ENCOURAGING MEXICO'S CURRENT TREND TOWARDS MARKET LIBERALIZATION, DEMONSTRATED BY MEXICO'S RECENT ENTRY INTO GATT, THE CHAMBER RECOMMENDS THAT ANY TEXTILE AND APPAREL IMPORT LEGISLATION APPROVED BY THIS SUBCOMMITTEE, MUST ACCOUNT FOR MEXICO'S POSITION AS A NEW ENTRANT AMONG SIGNIFICANT TEXTILE EXPORTING COUNTRIES. MEXICO IS LABORING TO OVERCOME DEEP ECONOMIC DIFFICULTIES AND WE MUST EMPHASIZE THAT IT IS VITAL FOR U.S. INTERESTS THAT MEXICO SUCCEED IN THIS EFFORT.

MAJORITY MEMBERS
JAMIE L. WHITTEN, MISSISSIPPI, CHAIRMAN
EDWARD P. BOLAND, MASSACHUSETTS
WILLIAM H. NATCHER, KENTUCKY
NEAL SMITH, IOWA
SIDNEY R. YATES, ILLINOIS
DAVID R. OBEY, WISCONSIN
EDWARD R. ROYBAL, CALIFORNIA
LOUIS STOKES, OHIO
TOM BEVILL, ALABAMA
BILL CHAPPELL, JR., FLORIDA
BILL ALEXANDER, ARKANSAS
JOHN P. MURTHA, PENNSYLVANIA
BOB TRAXLER, MICHIGAN
JOSEPH D. EARLY, MASSACHUSETTS
CHARLES WILSON, TEXAS
LINDY (MRS. HALE) BOGGS, LOUISIANA
NORMAN D. DICKS, WASHINGTON
MATTHEW F. McHUGH, NEW YORK
WILLIAM LEHMAN, FLORIDA
MARTIN OLAV SABO, MINNESOTA
JULIAN C. DIXON, CALIFORNIA
VIC FAZIO, CALIFORNIA
W.G. (BILL) HEFNER, NORTH CAROLINA
LES AuCOIN, OREGON
DANIEL K. AKAKA, HAWAII
WES WATKINS, OKLAHOMA
WILLIAM H. GRAY III, PENNSYLVANIA
BERNARD J. DWYER, NEW JERSEY
BILL BONER, TENNESSEE
STENY H. HOYER, MARYLAND
BOB CARR, MICHIGAN
ROBERT J. MRAZEK, NEW YORK
RICHARD J. DURBIN, ILLINOIS
RONALD D. COLEMAN, TEXAS
ALAN B. MOLLOHAN, WEST VIRGINIA

Congress of the United States
House of Representatives
Committee on Appropriations
Washington, DC 20515

MINORITY MEMBERS
SILVIO O. CONTE, MASSACHUSETTS
JOSEPH M. McDADE, PENNSYLVANIA
JOHN T. MYERS, INDIANA
CLARENCE E. MILLER, OHIO
LAWRENCE COUGHLIN, PENNSYLVANIA
C.W. BILL YOUNG, FLORIDA
JACK F. KEMP, NEW YORK
RALPH REGULA, OHIO
VIRGINIA SMITH, NEBRASKA
CARL D. PURSELL, MICHIGAN
MICKEY EDWARDS, OKLAHOMA
BOB LIVINGSTON, LOUISIANA
BILL GREEN, NEW YORK
JERRY LEWIS, CALIFORNIA
JOHN EDWARD PORTER, ILLINOIS
HAROLD ROGERS, KENTUCKY
JOE SKEEN, NEW MEXICO
FRANK R. WOLF, VIRGINIA
BILL LOWERY, CALIFORNIA
VIN WEBER, MINNESOTA
TOM DeLAY, TEXAS
JIM KOLBE, ARIZONA

CLERK AND STAFF DIRECTOR
FREDERICK G. MOHRMAN

TELEPHONE:
(202) 225-2771

May 18, 1987

STATEMENT OF HONORABLE JAMIE L. WHITTEN OF MISSISSIPPI
TO THE SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS

Mr. Whitten: I have consistently supported the Textile Industry. Now, more than ever, we must realize that the Industry like most others must have the same protection as other countries give their local industry, in view of differences in our cost and theirs.

I supported the Trade Bill as a protest. I am convinced, however, that this is not enough. Other countries are not going to run their business to suit us -- except perhaps in a few bilateral agreements.

Running a $170,000,000,000 trade deficit as we are, we must insist on the President using present authority to give to our Industry the same treatment that other contries give to theirs.

Trade does not have to be foreign to be good. Our $170,000,000,000 deficit means that much local trade is available.

Jamie Whitten

WASHINGTON COUNCIL ON INTERNATIONAL TRADE

POSITION PAPER

THE TEXTILE AND APPAREL TRADE ACT OF 1987
(H.R. 1154) (S. 549)

The domestic textile and apparel industry, together with the domestic footwear industry, have again asked Congress to increase protective import quotas. As a result, the Textile and Apparel Trade Act of 1987 has been proposed to both houses of Congress. The Washington Council on International Trade opposes this legislation for the following reasons:

1. It will impose further artificial price increases on American consumers. Recent studies have shown that U.S. consumers already are paying 30 percent higher prices for imported apparel as a result of current U.S. quotas and tariffs. With imported product prices artificially high, U.S. producers have raised their prices by an estimated 24 percent. If the proposed legislation becomes law, we can expect to see another artificial increase in the cost of clothing and footwear, two of the basic necessities for Americans everywhere. The estimated cost of this legislation to U.S. consumers is $10 billion, or about $223,000 for every job this legislation claims to be saving.

2. It would have a negative impact on the economy of the Pacific Northwest. Textiles, apparel and footwear are the leading imports of the ports of Washington State. In 1986 alone, more than $4 billion worth of textiles and garments moved through these ports, providing thousands of jobs. The proposed legislation would severely curtail the growth of these cargos and the economic benefits derived from them.

   This legislation also raises the threat of retaliation against some of the Pacific Northwest's most competitive export industries, which account for a great many jobs in the region. These export sectors include the aerospace and forest products industries as well as agriculture.

3. It is not necessary. For the domestic textile industry, already the most protected industry in the United States, 1986 was a highly profitable and successful year. U.S. textile plants last year operated at 95 percent of capacity. Production rose ten percent, and profits 97 percent, over the preceding year. 1987 is also expected to be a good year for the industry. Further protection is simply unwarranted.

4. The domestic industry remains protected by negotiated multilateral agreements, which are preferable to unilateral legislation. Last year, the United States renegotiated the Multifiber Arrangement (MFA), a multilateral textile trade agreement. The MFA now covers virtually all textile and apparel products. In addition, the United States negotiated restrictive bilateral agreements with Taiwan, Hong Kong, Korea and Japan, and it continues to maintain high tariffs on textile imports (18 percent, as compared with an average of three percent for other industries).

5. The proposed legislation would violate our international obligations and undermine the GATT negotiations. A new round of negotiations has just begun on the General Agreement on Tariffs and Trade (GATT). In these negotiations, the United States is expected to urge its trading partners to open their doors to competitive foreign products. The proposed legislation, which violates both the MFA and the GATT, will weaken the credibility of U.S. negotiators when they call for more open foreign markets.

In short, the Textile and Apparel Trade Act of 1987 is an unnecessary piece of legislation that would give undue protection to a profitable industry at the cost of many others. In the opinion of the Washington Council on International Trade, the trade policy envisioned by this legislation is neither rational nor fair.

RECEIVED
APR 13 1987
SUBCOMMITTEE ON TRA

Zayre Corp.
Framingham, Massachusetts 01701

April 6, 1987

APR 13 1987
WAYS AND MEANS

The Honorable Dan Rostenkowski
United States House of Representatives
Washington, D. C. 20515

Dear Representative Rostenkowski:

Zayre Corp. is a large multi-division company that is well-represented in your state, as detailed on the attached chart. We are very concerned with the impact of H. R. 1154 (S549), the Textile and Apparel Trade Act and urge you not to co-sponsor or to vote for this bad legislation because this bill's limitation on the growth of imports of textiles, apparel and shoes would substantially increase wholesale and retail prices. The requirement to space imports throughout the year would severely disrupt trading patterns and confuse retailers and importers who would be unable to plan what they can buy and when they can buy it. Further, it ignores the fact that certain segments of the apparel market grow faster than others because of changing fashion trends and would have the effect of locking in prevailing trends in styles, fabrics and fibers.

Some say that we have to protect the domestic textile and apparel industry. But, according to the Reserve Board, they were operating at 94% of capacity in January 1987; industry profits surged more than 400% in the third quarter of 1986. Thus, this legislation would provide a windfall rather than salvation and consumers would pay the price for this windfall. The textile and apparel industry is already the most heavily protected industry in our tariff schedules and it is estimated that consumers already pay a hidden tax of $27 billion on these imports. We have made great progress towards restraining the fires of inflation; this would be the wrong time to re-ignite them.

This is precisely the kind of legislation that might well set off the feared trade war. It would violate many of our trading agreements and the European economic community has already warned of retaliatory measures if this bill were to pass.

For these reasons I urge you to oppose this bill in any way you can.

Yours truly,

Hershel A. Denker
Executive Assistant to the President

jr

ZAYRE CORP. is a major operator of discount department stores, off-price apparel specialty stores and membership warehouse clubs.

ZAYRE STORES-362 stores, averaging 73,000 sq. ft. with locations in 25 states.

T. J. MAXX-226 stores in 35 states, with an average size of 24,000 sq. ft.
4,000 sq. ft. each, in 32 states.

HIT OR MISS-461 shops, averaging 4,000 sq. ft.

BJ'S WHOLESALE CLUB-15 membership warehouse clubs, about 100,000 sq. ft. each, in 8 states.

HOMECLUB-28 home improvement membership warehouse clubs, with an approximate size of 100,000 sq. ft., in 4 states.

State	Zayre Stores	TJ Maxx	Hit or Miss	BJ's	HomeClub
Alabama	14	6	5	0	0
Arizona	0	0	4	0	0
Arkansas	0	1	0	0	0
California	0	0	0	0	24
Colorado	0	7	7	0	2
Connecticut	6	8	13	1	0
Delaware	4	0	0	0	0
District of Columbia	1	0	2	0	0
Florida	79	15	30	1	0
Georgia	16	8	12	0	0
Illinois	41	22	39	3	0
Indiana	13	5	7	0	0
Iowa	1	1	2	0	0
Kansas	0	2	0	0	0
Kentucky	5	3	5	0	0
Louisiana	11	4	10	0	0
Maine	14	2	3	0	0
Maryland	10	2	12	0	0
Massachusetts	35	18	44	1	0
Michigan	2	18	26	0	0
Minnesota	0	5	8	0	0
Mississippi	3	0	0	0	0
Missouri	0	4	2	0	0
Nebraska	0	1	0	0	0
Nevada	0	0	0	0	1
New Hampshire	9	1	2	1	0
New Jersey	0	7	37	2	0
New Mexico	0	1	0	0	0
New York	16	5	34	5	0
North Carolina	11	9	13	0	0
Ohio	19	22	26	0	0
Oklahoma	0	2	4	0	0
Oregon	0	1	0	0	0
Pennsylvania	13	10	26	0	0
Rhode Island	8	2	7	1	0
South Carolina	0	4	5	0	0
Tennessee	9	5	13	0	0
Texas	0	10	35	0	0
Vermont	4	0	1	0	0
Virginia	12	9	17	0	0
Washington	0	1	0	0	1
West Virginia	0	0	2	0	0
Wisconsin	6	5	8	0	0
	362	226	461	15	28

100TH CONGRESS
1ST SESSION

H. R. 1154

To remedy injury to the United States textile and apparel industries caused by increased imports.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 19, 1987

Mr. DERRICK (for himself, Mr. ACKERMAN, Mr. ALEXANDER, Mr. ANTHONY, Mr. APPLEGATE, Mr. BALLENGER, Mr. BARNARD, Mr. BEVILL, Mr. BIAGGI, Mr. BOLAND, Mr. BONER, of Tennessee, Mr. BOUCHER, Mr. CLARKE, Mr. COBLE, Mr. COELHO, Mr. COUGHLIN, Mr. DANIEL, Mr. DARDEN, Mr. DICKINSON, Mr. DOWDY of Mississippi, Mr. DUNCAN, Mr. FLIPPO, Mr. FLORIO, Mr. FOGLIETTA, Mr. FORD of Michigan, Mr. FRANK, Mr. GAYDOS, Mr. GILMAN, Mr. GINGRICH, Mr. GOODLING, Mr. GRAY of Pennsylvania, Mr. GUARINI, Mr. HALL of Ohio, Mr. HARRIS, Mr. HATCHER, Mr. HEFNER, Mr. HORTON, Mr. HUBBARD, Mr. HUCKABY, Mr. JENKINS, Mr. JONES of North Carolina, Mr. JONES of Tennessee, Mr. LANCASTER, Mr. LEWIS of Georgia, Mrs. LLOYD, Mr. LOTT, Mr. MANTON, Mr. MCDADE, Mr. MCCLOSKEY, Mr. MCMILLAN of North Carolina, Mr. MOAKLEY, Mr. MONTGOMERY, Mr. MRAZEK, Mr. MURTHA, Mr. NEAL, Mr. NICHOLS, Ms. OAKAR, Mr. OLIN, Mr. OWENS of New York, Mrs. PATTERSON, Mr. PASHAYAN, Mr. PRICE of North Carolina, Mr. QUILLEN, Mr. RANGEL, Mr. RAVENEL, Mr. RAY, Mr. ROE, Mr. RITTER, Mr. RINALDO, Mr. ROSE, Mr. ROWLAND of Georgia, Mr. ROGERS, Mr. SHUSTER, Mr. SISISKY, Mr. SPENCE, Mr. SPRATT, Mr. ST GERMAIN, Mr. STUDDS, Mr. SUNDQUIST, Mr. SWINDALL, Mr. TALLON, Mr. THOMAS of Georgia, Mr. TOWNS, Mr. TRAFICANT, Mr. VALENTINE, Mr. WALGREN, Mr. WHITTEN, and Mr. YATRON) introduced the following bill; which was referred to the Committee on Ways and Means

---

A BILL

To remedy injury to the United States textile and apparel industries caused by increased imports.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Textile and Apparel Trade Act of 1987".

SEC. 2. POLICY.

The policy of this Act is to—

(1) relate the growth of textile and clothing imports to the growth of the domestic market in order to prevent further disruption of the United States textiles and textile products markets, damage to United States textile and clothing manufacturers, and loss of job opportunities for United States textile and clothing workers; and

(2) maintain a viable United States nonrubber footwear industry by preventing further damage to United States nonrubber footwear manufacturers and loss of job opportunities for United States nonrubber footwear workers.

SEC. 3. FINDINGS AND DETERMINATIONS.

(a) FINDINGS.—The Congress finds that—

(1) with respect to textiles and textile products—

(A) the current level of imports of textiles and textile products from all sources, more than one hundred and sixty-five countries, reached nearly 12.7 billion square yard equivalents in

1986, an increase of 17 per centum over 1985 imports; this level of imports is 2.5 times the level of imports in 1980, a rate of increase that was not foreseen when the United States granted trade concessions benefiting foreign suppliers of textiles and textile products, and represents over 1.2 million job opportunities lost to United States workers;

(B) imported textiles and textile products contain four million bales of cotton which is equivalent to 39 per centum of annual cotton production in the United States; eight out of every ten bales of cotton contained in imported textiles and clothing are foreign grown cotton; sustained massive increases in imports of cotton textile and clothing products are causing a declining market share for domestic cotton producers, depressed prices, and an average annual market revenue loss of over $1,000,000,000; another result is that a market development program voluntarily funded by United States cotton producers actually benefits foreign growers; finally, as imports of textiles and clothing increase, domestic cotton acreage is shifted to produce other agricultural products which are already in oversupply thereby adding to the problems of United States agriculture;

(C) imports of textiles and textile products made of wool have doubled since 1980, creating major disruptions among domestic wool products producers and seriously depressing the price of United States produced raw wool; because import penetration in the domestic wool textile and clothing market is nearly 70 per centum, it is critical that action be taken to halt further erosion of the domestic industry's market share;

(D) imports of textiles and textile products made of manmade fiber and competing fibers, other than cotton or wool, have more than doubled since 1980 resulting in substantial reductions in domestic manmade fiber production capacity and job losses;

(E) the textile and clothing trade deficit of the United States exceeded $21,000,000,000 in 1986, an increase of 18 per centum over 1985, and accounted for 12 per centum of the Nation's overall merchandise trade deficit;

(F) import growth of clothing and clothing fabrics has averaged 8 per centum annually since 1973; over that same period, the domestic market for clothing and clothing fabrics has grown only 1 per centum annually; import growth has recently accelerated and, since 1982, has averaged 21 per centum annually; the result is that import penetration in the domestic clothing and clothing fabric market has nearly doubled in the last six years, reaching a level of 52 per centum in 1986;

(G) as a result of this increased penetration and the very limited growth of the domestic market, the United States companies producing textiles and textile products competitive with those imported have been seriously damaged, many of them have been forced out of business, many have closed plants or curtailed operations, workers in such companies have lost employment and have been otherwise materially and adversely affected, and serious hardship has been inflicted on hundreds of impacted communities causing a substantial reduction in economic activity and lost revenues to the Federal and local governments;

(H) the factors described above are causing serious damage, or the actual threat thereof, to domestic producers of textiles and textile products; as a result, market disruption exists in the United States requiring new measures;

(I) unless the import growth rate of textiles and textile products is slowed to the long term rate of growth of the United States market, plant closings and job losses will continue to accelerate, leaving the United States with reduced competition benefiting domestic consumers and leaving the Nation in a less competitive international position;

(J) a strong, viable and efficient domestic textiles and textile products industry is essential in order to avoid impairment of the national security of the United States; and

(K) actions taken by the United States under the Arrangement Regarding International Trade in Textiles of December 20, 1973, as extended (commonly referred to as the "Multi Fiber Arrangement" or "MFA") have failed to avoid disruptive effects in the textiles and textile products markets in the United States; and

(2) with respect to nonrubber footwear—

(A) nonrubber footwear imports in 1986 reached a record level of nine hundred and forty-one million pairs; this volume of imports is 2.5 times that of 1981, the year that import relief for the nonrubber footwear industry terminated, and is 11.6 per centum above 1985 levels, the year in which the International Trade Commission issued its third finding that the domestic nonrubber footwear industry has been seriously injured by increased imports;

(B) since 1981, import growth of nonrubber footwear has averaged more than 20 per centum per year, gaining market share at the expense of the domestic industry; in 1981, import penetration of the domestic nonrubber footwear market was 51 per centum; by 1986, import penetration reached an unprecedented 80.7 per centum;

(C) as a direct result of imports, domestic nonrubber footwear production has declined every year since 1978, reaching two hundred thirty-four million pairs in 1986, a production level matched only during the Great Depression in the 1930's;

(D) domestic nonrubber footwear employment has steadily declined every year since 1981, and is down 37 per centum from 1981 levels and 7.3 per centum from 1985 levels; unemployment in the nonrubber footwear industry averaged 15.4 per centum in 1986, more than double the national average; and

(E) domestic nonrubber footwear production facilities are closing at an alarming rate, with three hundred and eight factory closings since 1981 and seventy closings in 1986 alone.

(b) DETERMINATIONS.—Congress determines that, for the foregoing reasons—

(1) textiles and textile products are being imported into the United States in such increased quantities and under such conditions as to cause or threaten serious injury to producers of textiles and textile products in the United States, and

(2) nonrubber footwear is being imported into the United States in such increased quantities and under such conditions as to cause or threaten serious injury to producers of nonrubber footwear in the United States,

within the meaning of article XIX of the General Agreement on Tariffs and Trade.

SEC. 4. LIMITS ON IMPORTS.

(a) CALENDAR YEAR 1987.—Notwithstanding any other provision of law—

(1) the aggregate quantity of textiles and textile products, from all countries, classified under a category that is entered during calendar year 1987 shall not exceed an amount equal to 101 per centum of the ag-

gregate quantity of such products classified under such category, from all countries, that entered during calendar year 1986, and

(2) the aggregate quantity of nonrubber footwear, from all countries, classified under a nonrubber footwear category that is entered during calendar year 1987, and during each calendar year thereafter, shall not exceed an amount equal to—

(A) the aggregate quantity of nonrubber footwear classified under such category, from all countries, that entered during calendar year 1986, and

(B) in the case of low priced nonrubber footwear, notwithstanding subparagraph (A), the aggregate quantity of low priced nonrubber footwear classified under such category, from all countries, that entered during calendar year 1986.

(b) GROWTH ADJUSTMENT.—For calendar years after 1987, the aggregate quantity of textiles and textile products, from all countries, classified under each category that may be entered during each such calendar year shall be increased by an amount equal to 1 per centum of the aggregate quantity that could be entered under such category during the preceding calendar year. If the aggregate quantity that could be entered under a category for a calendar year after 1987 is reduced under section 9(b), then, in the first calendar year in which there is no such reduction, this subsection shall be applied as if there had been no reduction under section 9(b) in previous calendar years.

(c) ENFORCEMENT.—The Secretary of Commerce shall prescribe such regulations as may be necessary or appropriate for the efficient and fair administration of the provisions of this Act, including regulations governing entry, or withdrawal from warehouse, for consumption of the products covered by this Act. Such regulations shall provide for reasonable spacing of imports over the calendar year.

SEC. 5. TARIFF COMPENSATION.

(a) COMPENSATION.—

(1) The President may (A) enter into trade agreements with foreign countries or instrumentalities to grant new concessions as compensation, to the extent required under international trade agreements of the United States, for the import limits imposed under section 4 of this Act to maintain the general level of reciprocal and mutually advantageous concessions under such agreements; and (B) proclaim such modification or continuance of any existing duty on textiles and textile products and on nonrubber footwear as he determines to be required or appropriate to carry out such agreements.

(2) No proclamation shall be made under paragraph (1) decreasing any rate of duty to a rate of duty which is less than 90 per centum of the existing rate of duty.

(3) Before entering into any trade agreement under this subsection with any foreign country or instrumentality, the President shall consider whether such country or instrumentality has violated trade concessions of benefit to the United States and such violation has not been adequately offset by the action of the United States or by such country or instrumentality.

(b) STAGING REQUIREMENTS.—The aggregate reduction in the rate of duty on any article which is in effect on any day pursuant to subsection (a) shall not exceed the aggregate reduction which would have been in effect on such day if a reduction of one-fifth of the total reduction under subsection (a) had taken effect on the effective date of the first reduction proclaimed to carry out such trade agreement, and at one-year intervals after such effective date.

(c) PROHIBITION.—Except as provided in subsection (a) and notwithstanding any other provision of law, the President may not enter into trade negotiations with any foreign country or instrumentality with respect to duties on textiles and textile products and on nonrubber footwear and may not decrease, or propose a decrease, in any such duty by any means, including an implementing bill under section 151 of the Trade Act of 1974 or a proclamation.

SEC. 6. ANNUAL REPORT.

Not later than March 15, 1988, and March 15 of each calendar year thereafter, the President shall submit to the Congress a report on the administration of this Act during the preceding calendar year. Such report shall include detailed information about the implementation and operation of the limitations established under section 4. All departments and agencies shall cooperate in preparation of this report, as requested by the President.

SEC. 7. REVIEW.

The Secretary of Commerce shall commence ten years after the date of enactment of this Act a review of the operation of this Act. The Secretary shall consult representatives of workers and companies in the textile and textile products and nonrubber footwear industries, the United States Trade Representative, the Secretary of Labor, and other appropriate government officials. Within six months after the commencement of the study, the Secretary shall submit to Congress his findings.

SEC. 8. DEFINITIONS.

For purposes of this Act—

(1) The term "textiles and textile products" includes, but is not limited to, all articles covered by a category;

(2) The term "nonrubber footwear" means nonrubber footwear articles classified under items 700.05 through 700.45; 700.56; 700.72 through 700.83; and 700.95 of the Tariff Schedules of the United States (19 U.S.C. § 1202) (as in effect on January 1, 1987) and includes, but is not limited to, all articles covered by a footwear category;

(3) The term "category" means each of the following—

(A) each category identified by a three-digit number in the Department of Commerce publication "Correlation: Textile and Apparel Categories with Tariff Schedules of the United States Annotated", dated January 1987, and in any amendments to such publication correcting clerical errors or omissions;

(B) each subdivision of a category described in subparagraph (A) with respect to which the United States has (i) an agreement with any country on the date of enactment of this Act limiting exports of textiles and textile products to the United States that includes a specific limit on such subdivision, or (ii) taken unilateral action to limit products from any country entered under such subdivision; and

(C) a category consisting of the manmade fiber products not covered by a category described in subparagraph A and classified under subpart E of part 1 of schedule 3 to the Tariff Schedules of the United States.

The Secretary of Commerce shall determine, after consultations with the United States Trade Representative and the United States International Trade Commission, whether comparable subdivisions described in subparagraph (B) are consistently defined; if the Secretary determines that such subdivisions are not consistently defined, then the Secretary shall prescribe by regulation an appropriate definition of the category covering such comparable subdivisions;

(4) The term "nonrubber footwear category" means each of the following—

(A) men's leather;

(B) men's vinyl/plastic;

(C) men's other;

(D) women's leather;

(E) women's vinyl/plastic;

(F) women's other;

(G) juvenile leather;

(H) juvenile vinyl/plastic;

(I) juvenile other;

(J) athletic leather;

(K) athletic vinyl/plastic;

(L) leather work footwear;

(M) other leather footwear;

(N) miscellaneous vinyl/plastic; and

(O) miscellaneous other.

(5) The term "low priced nonrubber footwear" means nonrubber footwear with a customs value of $2.50, or less, per pair.

(6) The term "country" means a foreign country, a foreign territory, an insular possession of the United States, or any other territory, possession, colony, trusteeship, political entity or foreign trade zone, whether affiliated with the United States or not, that is outside the customs territory of the United States;

(7) The term "duty" includes the rate and form of any import duty, including but not limited to tariff-rate quotas;

(8) The term "existing" means the nonpreferential rate of duty (however established, and even though temporarily suspended by Act of Congress or otherwise) set forth in rate column numbered 1 of Schedules 1 through 7 of the Tariff Schedules of the United

States (or the comparable rate of duty set forth in any law that may supersede such Traffic Schedules) existing on the day before the date of enactment of this Act; and

(9) The term "entered" means entered, or withdrawn from warehouse, for consumption in the customs territory of the United States.

SEC. 9. EFFECTIVE DATE.

(a) IN GENERAL.—Except as provided in subsection (b), the provisions of this Act shall apply to textiles and textile products and to nonrubber footwear entered, or withdrawn from warehouse, for consumption on and after the date of enactment of this Act.

(b) CALENDAR YEARS 1987 AND 1988.—The Secretary of Commerce shall prescribe by regulation the aggregate quantity, if any, of textiles and textile products and of nonrubber footwear that may be entered under section 4(a) under each category and each nonrubber footwear category during the period beginning on the date of enactment of this Act and ending on December 31, 1987. Notwithstanding subsection (a), to the extent that the aggregate quantity of imports of textiles and textile products or of nonrubber footwear entered under a category or nonrubber footwear category after December 31, 1986, and before the date of enactment of this Act exceeds the quantity permitted entry for such products under such category during calendar year 1987 under section 4(a), then the limit that would otherwise apply under section 4(b), in the case of textiles or textile products, or under section 4(a), in the case of nonrubber footwear, for such category for calendar year 1988 shall be reduced by the amount of such excess quantity. If such excess quantity exceeds the limit that would otherwise apply under section 4(b), or section 4(a), as appropriate, for such category for calendar year 1988, then the limit for such category for calendar years after 1988 shall be reduced until such excess is accounted for.

○